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AMB 2

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POL (5) 4-8

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MINATT 11

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LABOR 13

USAID (4) 14-17

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SVCATT (3) 20-22

POL/R (2) 23, 24

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Belem 25

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Curitiba 27

P. Alegre 28

Recife 29 1964. This airgram undertakes a review of the record of his

Salvador 30 administration during its first 100 days, which ended on

São Paulo 31 July 24, 1964.

POL/M 32

CF (2) 33, 34

BRAS (2) 35, 36

Department of State

This document consists of

71 pages. No. 2 of 53

POLAD USCINCSO 37

CINCLANT 38

copies. Series A

(For others see last page)

AmEmbassy Rio de Janeiro

August 7, 1964

First 100 Days of the Castello Branco Administration.

INTRODUCTION, SUMMARY AND CONCLUSIONS

President Castello Branco assumed office on April 15, 1964. This airgram undertakes a review of the record of his administration during its first 100 days, which ended on July 24, 1964.

Even a preliminary evaluation of the Castello Branco regime requires consideration of the conditions surrounding his accession to power. The shortsightedness, ineptitude and corruption of the country's political leadership had permitted the gradual but extensive penetration of the country's political and administrative structure by extreme leftists, ultra-nationalists and communist elements. These groups, through passive acceptance and at times open collaboration on Goulart's part, had achieved positions of leadership and power far beyond their basic strength among the Brazilian citizenry. Although a small minority, they had been able to put their stamp on a good deal of legislation and a great deal of administrative practice. In the field of urban labor they had won a dominating position; they had recently undertaken energetic efforts similarly to organize and capture rural labor. Efforts on the part of Goulart to place leftists, ultra-nationalists and opportunistic elements responsive to him in key command positions among the military had been so extensive that Goulart evidently had come to believe that he had built up a military base of power which could protect him against almost any contingency. As a result of demagoguery, leftist agitation,

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communist-inspired labor unrest, and recurrent and deepening political crises, there was a danger that if effective opposition to the rapid drift toward radical totalitarianism or chaos or both were not rallied soon, the country's ability to mount such opposition might be lost.

Economically, the country was rapidly approaching "the point of no return". For the year 1963 the rate of internal inflation had reached 80 percent, and rapid acceleration in this rate had taken place in the first quarter of 1964, making immediate entry on a true hyper-inflationary spiral a clear prospect. Inflation had eaten away private enterprises ability to finance itself and had increased its unhealthy dependence on the government. Measures of economic nationalism had helped to stop any net inflow of foreign private capital; and political instability, coupled with the economic situation, had stifled domestic investment. As a result of all these factors, per capita income, which in the 1950's had shown an annual increase of more than three percent, in 1963 had turned negative with further decline in prospect. Economic chaos was in sight.

Brazil's much advertised "independent foreign policy" had grown increasingly inconsistent with her hemispheric treaty obligations, and Brazil had become an important half-way house for movements of persons between Cuba and other Latin American countries.

Castello Branco entered upon the unenviable job of trying to correct this situation with a minimum of advance preparation and even of advance notice. Having been propelled into power by the circumstances and finding among his base of support a heterogeneous collection of "revolutionary" elements--literally everyone who was opposed to Goulart or went along with his removal for patriotic or personal reasons--he set out on the formidable task of trying to execute an expeditious and urgent program of action while simultaneously forging an adequate base of political support.

From the predecessor interim regime under Mazzilli and the "Supreme Revolutionary Command" Castello Branco inherited the urgent problem of consolidating the victory of the almost bloodless revolution. At the same time he inherited the Ato Institucional, a modification of the Constitution decreed by the Supreme Revolutionary Command, which gave him increased punitive as well as other powers. During the first 100 days he used the purgative provisions of the Act with moderation although, as was inevitable, some mistakes were made.

Castello Branco has used vigorously the simplified procedures for exacting legislation and constitutional amendments which the

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Act also contained. Particularly after June 15 when the article providing for the cancellation of congressional mandates and suspension of political rights expired, the regime has been increasingly vigorous in introducing proposals for constructive change.

The regime's record of legislative success has been impressive. It has, for example, been able successfully through legislation or amendments to handle such thorny problems as 1) guarding against minority presidencies, 2) extending Castello Branco's own term by fourteen months to prevent the premature disruption of a presidential election campaign from keeping the government from being able to cope with the many vital tasks facing it, particularly in the economic field, and 3) modifying and liberalizing legislation regulating the remittance of profits by foreign companies, a step much needed to restore an influx of foreign capital into Brazil.

In the field of purely executive action, Brazil has taken the major steps of breaking diplomatic relation with Cuba and of taking a position of much closer identification and cooperation with the West, as well as important steps in the economic field which will be mentioned below.

One of the gravest long-range dangers growing out of the revolution was that opposition to an overly-conservative-looking regime might start the process of fission of the Brazilian body politic into two nearly equal segments, the left wing of which in the future would provide an ideal medium for "united front" tactics by the communists. Castello Branco has moved to avert this danger and has made continuing and surprisingly successful efforts to win the tolerance if not the support of the "non-subversive" left by proposing moderate reform measures. In doing so, he has aroused opposition on the part of such elements as Carlos Lacerda and some of the more conservative military officers. So far at least the President has been generally successful in preventing this opposition from interfering with his programs.

In view of the critical place that the military occupies in Castello Branco's base of support, as well as for other reasons, it was inevitable that military officers should continue to play an important role in the regime as, for example, in being appointed to key positions in government agencies or acting as interventors in the autarquias. As of the present, at least, the role of the military seems to be welcome rather than otherwise by the majority of the population.

On the whole, the performance of the Castello Branco government in the economic field has been remarkably good by Brazilian

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standards. It has reversed the trend of inflation, reducing the rate of inflation from 24 percent in the last quarter of the Goulart administration to less than 15 percent in the first three months following the revolution. It has accomplished this without unduly restricting credit to the private sector and with relatively minor adverse repercussions on demand, production, and employment. Its measures with respect to wage policy, taxation, and economies in the public sector have set the stage for further reduction in the rate of inflation, and there is now a realistic prospect that inflation will have been reduced to manageable proportions by the end of 1965, and something approaching real stability achieved during the course of 1966.

The single economic measure most vulnerable to criticism was the pay increase of 170 percent granted military personnel soon after the revolution. This increase was greater than could be justified on the basis of the increase in cost of living, and it severely hampered the government in its later efforts to hold down the size of the pay increase extended to civil servants. Although the military pay increase was regrettable from the point of view of its effects on the stabilization effort, it is understandable in the light of the much greater (over 300 percent) increase which had been proposed by the Goulart government, and the widespread sense of gratitude toward, and the great influence of the military in the immediate aftermath of the revolution.

The government has also moved with commendable speed and energy to improve the balance of payments situation through negotiations with Brazil's major creditors to reschedule debt service payments falling due in 1964 and 1965. That no improvement is thus far evident in Brazil's precarious balance of payments situation is due to the stagnation of coffee exports throughout the post-revolutionary period. Although the government's coffee policy may have had some adverse effect on exports, factors external to Brazil appear to have been at least equally important in holding coffee exports to a low level.

The government has also moved effectively to promote economic development. It has re-established the confidence of the private sector in the security of property rights. It has, as has been mentioned, sponsored legislation to restore a favorable climate for foreign private investment, and is moving rapidly toward conclusion of an investment guaranty agreement with the U. S. It has cooperated far more effectively with the U. S. and other sources of external aid than did its predecessor. The government has left little room to criticize its actions in this field, given the political and administrative realities which exist in Brazil.

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In the area of popular socio-economic reforms, the government's efforts have been limited largely to two fields: low-cost housing and agrarian reform. These measures--the first on the verge of becoming law, the second not yet submitted to Congress--appear to be soundly-conceived approaches to the solution of genuine socio-economic problems. At the same time the government has taken a series of steps which together constitute a beginning toward bringing about much needed reform in the operation and administration of the public sector, including the "autarquias" and government enterprises. Much more needs to be done in this area.

Of the various phases of its economic program, the government perhaps has least reason to be proud of its efforts to ensure an adequate and regular supply of foodstuffs to urban consumers and its efforts to control prices. Although the government took steps soon after the revolution to arrange for additional P.L. 480 food supplies to make good deficiencies resulting from drought in south central Brazil during the preceding growing season, owing to subsequent delays in procurement, these supplies have not yet begun to arrive in Brazil. Serious shortages of sugar, salt and milk have occurred in Rio de Janeiro. These have been accentuated by clumsy price control efforts, which have extended also to a wide range of manufactured articles.

The performance of the government in the economic field has reflected both the virtues and the defects of a government composed for the most part of competent, non-political technicians. While its program has been soundly conceived on the whole, the government's lack of skill in dealing with Congress has contributed to growing congressional opposition to certain measures, and it has not been notably successful in generating widespread popular enthusiasm for its economic program.

In summary, then, during its first 100 days the Castello Branco regime has been successful in steering a course that avoided the many rocks and shoals through which it had to pass. Its record of vigorous action, amply illustrated in the body of this report, has been impressive. At the same time further dangers lie ahead. Of these, perhaps the most significant arise from the possibility that improvement in the economic situation cannot be achieved quickly enough and that rising popular discontent, particularly on the part of urban labor, will lead the military to impose a harsher regime. Nothing that has happened during the first 100 days makes such a development a foregone conclusion; indeed at the end of the period the progress achieved makes the realization of this danger seem less likely than at the outset. The resolve, however, of most of

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the officer corps and many influential civilian supporters of the revolution that, cost what it may, there shall be no reversion to the previous slide toward radical totalitarianism or chaos is impressive and should not be underestimated.

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ENCLOSURES

- (1) Major Economic Legislation Approved or Submitted During First 100 Days; Major Economic Measures in an Advanced Stage of Consideration
- (2) Major Executive Actions in Economic Field
- (3) Resume of Major Alliance for Progress Projects Initiated During First 100-Day Period of Castello Branco Administration

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POLITICAL

Setting the Stage: The Supreme Revolutionary Command

During the hectic hours surrounding the Goulart ouster, one of the first problems to be solved was that of choosing the successor caretaker government. Through a very "Brazilian" solution, it was decided that constitutionality would be preserved (notwithstanding the extraordinary measures used to depose Goulart). Thus, Chamber President Ranieri Mazzilli, next in line according to the Constitution, was sworn in as President. Actual power was exercised, however, by the top military commanders of the revolution who styled themselves the "Supreme Revolutionary Command". The membership of this power group was somewhat ill-defined; however, the military Ministers (General Artur Costa e Silva, Brigadier Correia de Mello and Admiral Rademaker) jointly signed an Ato Institucional on April 9 which essentially set forth the guidelines for the revolution and established the ground rules under which the new regime would operate.

On April 10, the "Supreme Revolutionary Command" issued the first list of persons to be deprived of electoral mandates and/or to have their political rights suspended under the terms of Article 10 of the Ato Institucional. By the time that Mazzilli once again turned over the presidency, 167 Brazilians had lost their political rights for ten years; 39 federal deputies (or alternate deputies) and 1 federal senator had had their electoral mandates cancelled. In addition, 24 military officers had been transferred to the reserve under the terms of Article 7 of the Ato. These pre-Castello Branco actions affected such prominent figures as ex-Presidents Goulart and Quadros, ex-Governor Miguel Arrais, ex-SUDENE Chief Celso Furtado, etc.

The pressure brought to bear by the terms of the Ato was also felt by Congress in relation to the election of a new President. In an April 11 session, Congress overwhelmingly elected General Humberto de Alencar Castello Branco as President. The highly-respected ex-chief of the Army General Staff retired from active military duty (with a promotion to Marshal) to assume his new duties on April 15, 1964.

To place any evaluation of the performance of Castello Branco's government in perspective, certain well-known facts should be kept in mind: (1) Castello Branco assumed power without advance preparation; (2) the "revolutionaries" had united around a negative

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flag--i.e. the deposition of Goulart; once this immediate objective was achieved, some inevitable differences concerning the positive, constructive aspects of the new regime were bound to appear; (3) the Castello Branco government was heir to chaotic economic and financial conditions, a public which had been increasingly pushed towards some form of social revolution, a partially divided military, a corrupt and subverted labor movement, etc. To reconcile the resultant existing political turmoil and at the same time restore some economic sanity thus loomed as leviathan, sometimes contradictory problems on the horizon at the outset of the first 100 days.

The 'Ato Institucional': Ground Rules for the New GOB

As has been noted, the revolution was "institutionalized" through an Institutional Act published on April 9. The Ato modified the Constitution in several important aspects and thereby set forth the ground rules under which the new regime would operate. Key on-going points and provisions are as follows:

1. Article 3 provides for a simplified procedure of amending the Constitution. Under the Ato, executive-proposed Constitutional amendments must be considered within a period of 30 days. An absolute majority of both houses of Congress, voting in two separate sessions held within a time-span of ten days can pass the proposed amendment.

2. Under Article 4, the President can propose ordinary legislation to the Congress which must be considered within 30 days in each house. If it is not voted on within that period of time, the bill automatically becomes law. Only the President can make proposals which imply an increase in expenditures (Article 5).

3. The President can declare or extend a state of siege while Congress is in session (Article 6).

4. Article 7 has resulted in a series of joint military-police investigations. Under this article, the Constitutional rights of job and life tenure for government employees are suspended until October 9, 1964. Individuals who were covered by these provisions may be fired, retired, placed on leave-of-absence, etc., following a "summary" investigation. (The individuals do, however, have the right of defense.)

5. The most controversial provision of the Ato was Article 10 under which the Supreme Revolutionary Command and later the

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President were enabled to cancel electoral mandates and/or suspend political rights of individuals for a period of 10 years (see below). The application of these sanctions expired on June 15, 1964.

Getting Started: Leadership Problems

Castello Branco became President on April 15, 1964. But some question still existed: would he actually exercise control through his office, or would the "Supreme Revolutionary Command" continue to be the eminence grise of the new regime? To be sure, the military commanders who had taken an active and decisive role in the April revolution were not disposed to relinquish their power until it was evident that the new regime was established and could prevent an early backslide into pre-revolutionary patterns of government. Thus, appointments to key positions became one of the critical early tests for the new President. Even though formal submission to revolutionary leaders of candidates for appointment was not necessary, an understood criterion for appointment was a relatively clean bill of health (primarily free from charges of subversion and secondarily without a record of corruption) plus an open alignment with the revolution. Another standard which Castello Branco apparently tried to follow was to give preference to technicians and a premium to experience.

As a result, the new Cabinet was more notable for its age and experience than for its new faces or advanced ideas. After the first 100 days certain changes had been made. One substitution (the Agriculture Minister) had taken place. The Cabinet had grown to include an Interior Minister and the chief of the newly-created National Intelligence Service. The position of Minister for Planning (once held by Celso Furtado) was reactivated and given increased importance. As the leadership of the new government evolved, it became apparent that those Cabinet ministers exercising the greatest influence were War Minister Costa e Silva, Minister for Planning Roberto Campos and Justice Minister Milton Campos.

Following the revolution, almost all government and semi-governmental agencies were placed under federal intervention. Two objectives motivated this activity: (1) removal of leadership closely identified with the noxious qualities (subversion and/or corruption) of the Goulart regime and (2) investigations of the activities of the respective agencies. At the end of the first 100 day period, most of these organizations (with the exception of labor organizations) had passed from the state of intervention into normal operation under new pro-revolutionary leadership. In some

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areas--most notably the labor unions--the new regime had to cope with another of Brazil's basic ills, namely the shallowness of the competent leadership layer. Thus, in some cases while the new leaders were certainly more acceptable from an ideological point of view, there was no reason to assume that they would necessarily be more capable (or efficient) in carrying out their functions. The general pattern of leader substitution has followed two lines: (1) the naming of technicians who are supposedly versed in their respective areas or (2) the appointment of military officers to head up the agencies.

Castello Branco as an Emerging President

Although apparently somewhat reluctant at first to accept the responsibility of the Presidency, Castello Branco has moved to dispel any doubts which may have existed concerning how he intends to exercise the functions of the office which he now holds. While the record of the first 100 days is understandably somewhat spotty and mistakes have been made, there can be little criticism of the consistency with which Castello Branco has acted. He early established the goals of sane and stable government in which the Executive would be the initiator as well as the executor of many of the policies. He indicated from the outset that meaningful reforms were a prerequisite to such government, and he has not waived from that principle.

In spite of his acceptance of the extension of his mandate (over his previous objections), Brazilians do not at present seem to fear dictatorial tendencies on his part. The opposition to the new regime and its policies has thus far generally skirted direct attacks on Castello Branco. Even so, there are some who feel and have publicly so expressed themselves that the Marshal made a too-quick adjustment to politics with a resultant softening of his attitude concerning the severity with which the revolution should be carried out (see below).

Post-Revolutionary Investigations

To provide a basis for action under Articles 7 and 10 of the Ato a massive investigative program was mounted by the revolutionary authorities. At its peak over three hundred officially commissioned officers were conducting investigations for the Federal authorities and numerous free-lance and "vigilante" investigators were making inquiries. In each State there were Investigating Commissions working under the direction of the Governor, or in some cases, the highest military authority. State police and investigative units

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participated in the program as did special investigative bodies set up in the various autonomous institutes. A major coordinating role was carried out by the General Investigation Committee headed by Marshal Taurino de Resende. Finally, each of the four Brazilian armies had special investigative teams.

Reports and findings from the various investigative entities were forwarded to the National Security Council for review and evaluation. There were approximately 92 officers from various military organizations on temporary duty with the National Security Council in connection with the activities related to Article 10. In general these men were divided into teams of three men but in the case of former President Juscelino Kubitschek a team of fifteen men was required in view of the volume of work. After review in the National Security Council, the documents were forwarded to the President with a recommendation for action. Officers at the NSC prepared a total of about 1500 recommendations for action under Article 10. This figure was cut to 1200 by Lt. Col. João Batista Figueiredo, Director of the National Information and Counter-Information Service, before forwarding to the President. The President further reduced this number drastically (see below).

Investigations for possible actions under Article 7 of the Institutional Act will continue until October 9, 1964. These investigations, however, are being conducted by formally constituted investigative agencies such as the State Police and Army intelligence and not by specially created investigative teams which were disbanded shortly after June 15.

The First 60 Days: Article 10 and its Effects

Perhaps the most controversial provisions of the Ato Institucional were those of Article 10 which enabled the revolutionaries to carry out a cleansing process by arbitrarily cancelling electoral mandates and/or suspending political rights of citizens for a period of ten years. The application of these sanctions was not subject to judicial review or the normal rights of self-defense. Even so, as an answer to the not-unusual post-revolutionary paredón methods, the Article 10 measures must be considered to have been mild. Perhaps it was this very quality which made Article 10 a politically explosive weapon, apt to be almost as dangerous for those using it as for those against whom it was used.

Under the terms of the Ato itself, the Supreme Revolutionary Command was empowered to apply Article 10 until the new President took office. Following the inauguration, President Castello Branco

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(by the Ato) had a period of 60 days during which he could apply the Article 10 Sanctions upon the recommendation of the National Security Council.

As has been noted, during the first four days of the Ato Institucional the "Supreme Revolutionary Command" deprived 167 prominent Brazilians of their political rights. It was widely anticipated that this sweeping application would set the tone for further activity in the same vein. In all parts of the country, military and civilian authorities carried out investigations and forwarded names to the National Security Council for consideration. Especially among the military supporters of the revolution, it was generally assumed that a thorough house-cleaning would take place. Moreover, there was a general expectation that President Castello Branco would take advantage of the suspenseful climate created by the Article 10 period to force through other political reforms deemed desirable.

Thus to many of the revolution's supporters, Castello Branco's rather cautious usage of Article 10 was disappointing. On May 4--almost three weeks after assuming office--the President first invoked the article to suspend the political rights of ex-Rio State Governor Badger Silveira (who had been impeached by the State Assembly--after some military prompting). Other lists published in May affected personages in Rio Grande do Sul and in Goiás. However, after something of a cliff-hanging experience, Goiás Governor Mauro Borges was spared.

Partially as a sop to the pro-Article 10 revolutionaries (but certainly in conformance with his own conscience on the matter), President Castello Branco on June 8 took the single most controversial step in the Article 10 process by cancelling the mandate and suspending the political rights of Senator (and ex-President) Juscelino Kubitschek. Kubitschek's case had been a controversial one with days of psychological preparation through public discussion of the pros and cons of the act. In spite of the international furor that the act caused, internal repercussions were surprisingly mild (considering the fact that Kubitschek was the front-runner in the 1965 scheduled presidential race).

The action against Kubitschek and the concomitant publication of a list of 39 other citizens who lost their political rights only served to whet again the appetites of those who saw in Article 10 the chance for a thorough-going purge. Speculation increased concerning the composition of a final "listão" (huge list) which

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would be published prior to the June 15 deadline for application of Article 10. Pressure was also brought to bear on Castello Branco to extend the time period during which Article 10 could be used--a temptation which the President firmly and consistently turned down.

The publication of the final lists over the week end of June 13-14 included a mere 110 names; earlier predictions had run in the neighborhood of 300-400. Certainly many of those who had assembled information and made recommendations concerning individuals were disappointed with the President's use of the "once-in-a-life-time" weapon: Castello Branco had suspended the political rights of 211 individuals during the sixty-day period--only 44 more than the Supreme Revolutionary Command had similarly punished between April 10 and April 13 and only 56 percent of the total of 378 individuals who lost their political rights.

Reflecting on the provisions and execution of Article 10, it seems to have been a mixed blessing. Undoubtedly there was a necessity of ridding the revolution of those elements antithetical to it. At the same time, the execution of the act obviously resulted in the punishment of many relatively small individuals (i.g. mayors, local labor leaders, city councilmen, etc.) while it missed such big (and, from a Brazilian point of view, obvious) culprits as Senator Ermirio de Moraes, San Tiago Dantas, Adhemar de Barros, Evandro Lins e Silva, etc. Faced with the dilemma of carrying the Article 10 sanctions to their logical extreme or of doing nothing, Castello Branco came up with a compromise which predictably did not completely please anyone while it at the same time completely displeased many. His use of the controversial measure was undoubtedly wise and statesmanlike in light of his formidable task of reconstruction; at the same time he will probably be long-haunted by those who will not miss a chance to blame future ills on his cautiousness.

Where Are They Now? Arrests, Releases, Exiles...

Among the more frustrating aspects of the first 100 day period have been any attempts (either on our part or, seemingly, on the part of the GOB) to determine exactly how many individuals have been arrested in the wake of the revolution. Much of this frustration stems from the fact that arrests and imprisonments were carried on by several independent agencies--the military, state police, municipal law enforcement agencies, etc. Initial reports rather vaguely referred to "thousands" of prisoners. Certainly large

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numbers of persons were detained at least temporarily during the early post-revolutionary period when the overflow of prisoners was handled on "prison ships" (actually luxury liners pressed into service), and by other temporary expedients.

At the same time, many of the individuals, even those who were prominent members of the Goulart entourage such as his last Labor Minister, Amauri Silva, were released after being held for a few hours. Prodded by international as well as domestic public opinion, ~~and the fact that~~ the GOB made some attempt to compile statistics on the issue--without notable success. More importantly, the Chief of the post-revolutionary investigating mechanism made it abundantly clear that prisoners would have to be released after a fifty-day detention unless specific preventive arrest was decreed on an individual basis. Apparently there has been general compliance with this ruling.

In late July, a National Security Council source stated that only 138 were under arrest. On the other hand, a source in the General Investigation Committee placed the figure at nearer 1000, stating that of those about 500 would be detained in prison for prosecution.

It has been somewhat easier to determine the whereabouts of some of the prominent individuals who lost their political rights under Article 10. Many of these have gone into political exile. Ex-President Goulart went to Montevideo in company with Leonel Brizola, Darci Ribeiro, Waldir Pires, Dante Pelacani, Eloi Dutra and others. Ex-President Kubitschek repaired to Spain and thence to Portugal to attend his daughter's wedding, following which he planned a lecture tour in the United States. Yugoslavia is the base of operations for ex-presidential press secretary Raul Ryff, ex-deputies Bocayuva Cunha and Almino Afonso and others. Ultima Hora's Samuel Wainer went to Paris after a short stay in Chile. Ex-Justice Minister Abelardo Jurema is in Lima, writing a book about the revolution.

Some other notorious pre-revolutionary figures have seemingly disappeared. PCB president Luis Carlos Prestes has apparently not yet seen his eighth child, born after the revolution. Others--such as ex-President Quadros--have managed to get a few headlines but generally continue to carry on an abnormally quiet life. Finally, some of the heroes of Goulart days are in prison--Francisco Julião, Miguel Arrais, Paulo de Tarso, etc.

The overall record of treatment of the "enemies" of the revolution thus reveals the usual amount of Brazilian disorganization,

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leniency and good will--which is not to say that scattered reports of police brutality ~~and/or suppression~~ are not without foundation.

Executive-Congressional Relationships

Reflecting on the first 100 days, one might say that in spite of some obvious stresses and strains, relations between Castello Branco and the Congress evolved along remarkably fruitful lines. Even so, this admirable record is, in the final analysis, perhaps due less to any change of heart on the part of Congress or the change in presidential leadership techniques than it is due to the after-effects of the revolution itself--especially the special pressures brought to bear through the Ato.

Certainly Congress' behavior can be better understood after a recapitulation of the effects that Article 10 of the Ato had on that body: 44 Federal Deputies and 24 of their alternates (suplentes) lost their electoral mandates and had their political rights suspended. The same sanctions were applied to two Federal Senators. The net effects of this purging have been of mixed values. On the positive side of the ledger, the virulently xenophobic sector of Congress was seriously crippled. From a less sanguine point of view, ~~the~~ resultant process of substitution did not always enhance either the stature or competence of the body. The ironies of the situation were amply illustrated by two specific cases. Recife house painter Luiz Pereira da Silva (recipient of 126 votes in the 1962 elections) inherited the seat left vacant by peasant-leaguer Francisco Julião. Likewise, the Guanabara PTB was so reduced that Miguel Batista dos Santos (who had received 240 votes and who is a member of the PCB Central Committee) became theoretically eligible to assume a seat in the Federal Chamber.

Congress' cooperative performance is thus probably more reflective of a time-honored adjustment to a new realidade brasileira than it is of any changes in the basic complexion of the body.

Following the publication of the Ato, Congress quickly aligned its modes of operations with the new situation. As executive-congressional relations evolved during the period, there was some obvious mutual discomfiture. The Congress, its freedom limited by the provisions of the Ato and the implications of the revolution itself, felt its way carefully in an attempt to re-establish a distinct and independent personality. On the part of President Castello Branco, there was an obvious awareness of the "rubber stamp" complex which Congress was suffering. As a result, the

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President delayed until after the June 15 deadline for the application of Article 10 before he began to handle controversial issues through the Ato's Article 3 and 4 provisions for special congressional consideration of executive-proposed amendments and legislation. Thus while Congress collectively remained under the gun, individual members were freed from the prospect of vindictive action being taken based on positions taken on controversial issues.

The Castello Branco government received formal congressional support through the early formation of a majority bloc based primarily on the UDN and PSD with small party participation. The PSD subsequently withdrew to an "independent" position following the cancellation of Kubitschek's mandate. In actual practice, the GOB has not relied so much on its "majority" adherents in Congress as it has on a shifting pool of votes which ranges across the political spectrum depending on the issue involved. For example, the conservative, internationalist elements of the UDN and PSD have formed the major base of support for much of the administration's economic program; conversely, a more liberal combination (including a majority of PTB members) joined together to pass such political measures as that providing for the majority election of the President.

It should be noted that Castello Branco has relied more on the revolutionary momentum and the Ato procedures to get what he wants from Congress than on any careful cultivation of the legislators themselves. This evidently does not reflect any disparagement on the President's part; if reasoning beyond the inner logic of the situation must be found, it might well be a simple application of the direct leadership principles which have long been a part of Castello Branco's life and character.

Growing out of these factors, we note that there has not been any notable increase in meaningful dialogue between the executive and the legislative branches. (Under Goulart such a dialogue was extremely rare.) This has resulted in the submission of measures to Congress which would seem to have been rather sketchily thought out. A prime example was the GOB-proposed constitutional amendment dealing with the majority election provision. The original proposal was politically faulty, even from the point of view of the "revolutionaries"; happily Castello Branco has proven to be flexible enough to permit Congress to modify such proposals.

Specific legislative accomplishments are discussed elsewhere in this report. For a detailed discussion of Castello Branco's relations with parties in Congress, see Brasilia's A-13 of July 22, 1964.

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Developing Opposition to Castello Branco Government

During the first sixty days of the new regime there was little evidence of opposition. This was undoubtedly due to the Article 10 Damoclean Sword. From the political right, the "hard liners" continued to hope that the GOB would use this special weapon to purge all elements of the "enemy". From the left, the dangers of the game resulted in well-counselled silence.

Since the June 15 expiration of the application of Article 10, opposition has predictably begun to develop gradually across the political spectrum. This opposition has not gone much beyond the grumbling stage, although there are scattered reports of anti-government plotting. The Castello Branco administration is aware of this not unexpected opposition. The GOB's evaluation of the effectiveness of the opposition--and conversely the strength of its own positions--is probably best illustrated by the "full steam ahead" policies which Castello Branco is following.

With the Communist movement at least temporarily forced underground and with the Goulart and Brizola leftist elements not yet recovered from their post-revolutionary disarray, it is not surprising that the opposition of more immediate concern should come from within the ranks of the "revolutionaries". It is almost a truism to state that the polyglottous group which had united to depose Goulart should soon show divisions. By way of recapitulation, we note the following major political currents as having played an important revolutionary role: (1) officers of the Armed Forces and their civilian counterparts whose chief preoccupation was the communist infiltration and dishonesty existent within the Goulart regime, but who ~~conversely~~ feel that the existing Brazilian social, economic and political structures are archaic; (2) officers of the Armed Forces and their civilian counterparts whose nearly exclusive motivation seems to have been the restoration of a status quo ante with an additive element of honesty--e.g. honest government without Goulart and without reforms; (3) somewhat reluctant individuals (especially some politicians) who endorsed the regime belatedly after it became apparent that Goulart had lost (this "opportunistic" group is undoubtedly principally interested in "using" the revolution for its own ends.)

The general anti-reformist opposition to the Castello Branco administration has resulted in an alliance of convenience among a number of individuals and groups. Certainly the most reactionary position of all in this respect is taken by the rural landholders

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whose militant opposition to agrarian reform (read land redistribution) is best reflected through the more highly-organized São Paulo rural producing class (see São Paulo's A-7 of July 9, 1964). The anti-reformists have found perhaps strange bedfellows in the "hard line" military officers (see separate discussion below), even though many of the latter base their rightist opposition on anti-communism, anti-leftism and anti-corruption rather than on anti-reformism. Still another ally has been found among some industrialists who resent GOB economic/financial policies which have had the effect of restricting credit.

This general opposition current has found its clearest expression in Guanabara Governor Carlos Lacerda's stand to the effect that solutions to Brazil's problems will be found through good administration and honest government rather than through reforms (Embassy's A-53 of July 14). While the fiery Lacerda has moved back from the opposition brink, there can be little question about the fact that he is regarded by many as the natural leader of this group.

In center field, the followers of ex-President Kubitschek are bitter about having lost their best chance to regain power in 1965. Kubitschek's own PSD decided somewhat meaninglessly and hypocritically to take up an "independent" position vis-a-vis the Castello Branco government after the June 8 action against the party's leader. From selfish motives, this group knows that it cannot remain out of power too long or its patronage winnings will melt away. All indications are that the party will thus continue to opt for collaboration with the GOB rather than take up the cudgel of artificial opposition.

From left-of-center, the moderate PTB leaders are not as unhappy with the current situation as their public statements might indicate. With the passing of Goulart, a great costume-changing act is going on behind the curtains. Many of the younger secondary party leaders are preparing to assume new and major roles in the "all new and democratic too" PTB show. The ultra-nationalists who in the past have done well by lining up with the revolutionary left show signs of continuing this policy. However, this opposition group remains seriously disorganized and demoralized after the first 100 days of the Castello Branco administration.

In general, leftist opposition might be more of a long-term threat to the GOB than opposition from the right. However, at this time, the near-amputation of leftist leadership, the fear of further government reprisals and the already-noted post-revolutionary

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disorganization have combined to impede articulation of leftist opposition. Furthermore, the long-standing alliance between the ultra-nationalist and extremist elements with left-leaning liberals is somewhat endangered by the reformist tendencies exhibited by the Castello Branco government. The President himself has appealed publicly for the support of the "non-subversive" left, and he is fully conscious of the dilemma he is posing for them: on the one hand, they are naturally predisposed to oppose the government which seriously crippled their functioning organization; on the other hand, it would be hypocritical, if not politically dangerous, for this segment to take stands against those reform measures which they have long espoused.

Some of the factors causing dissatisfaction (and hence potential opposition) among such groups as students, labor, etc., are discussed below under "attitudes" towards the revolutionary regime.

Status and Activity of PCB and CPB

During the first 100 days of the Castello Branco administration, the Brazilian Communist Party (PCB) was principally occupied in reorganizing its badly-scattered forces. The national leadership of the PCB itself escaped relatively unscathed. However, the party suffered heavy losses among its rank and file members. PCB front organizations such as the CGT, PUA, ULTAB and FULTAB, have been closed down. Publication of Novos Rumos stopped with the revolution. The two known members of the PCB who were federal deputies, Marco Antonio Coelho and Demistocledes Batista, had their mandates cancelled and political rights suspended for ten years. A similar fate has befallen many of the PCB leaders prominent in the labor union area and in the PCB fronts.

Many of the important PCB leaders, including Oswaldo Pacheco da Silva and Oswaldo Stafford da Silva, have sought asylum in other Latin American countries on instructions of the PCB.

Of the fifteen most important national leaders of the PCB, only Carlos Marighella has been imprisoned. Effective leadership of the Party has passed to Giocondo Alves Dias.

PCB President Luis Carlos Prestes has been discredited within the PCB by his failure to remove or destroy extensive notebooks documenting party activity. These notebooks have fallen into the hands of the police. The PCB probably correctly assumes that it will suffer further reverses as Brazilian security services analyze and act on the information contained in the notebooks.

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The national leaders of the PCB still have no clear idea of the condition of the PCB in Rio Grande do Sul, Bahia, and other important states. Members or representatives of the Central Committee are now traveling more freely, and the national leaders reportedly will soon attempt to re-establish contact with all state committees of the PCB.

In its initial assessments of the post-revolutionary political situation, the PCB generally has adhered to its pre-revolutionary line of united front tactics and the peaceful advent to power. The debacle suffered by the Party as a result of the revolution, however, has given new strength to such PCB leaders as Mario Alves da Sousa Vieira and Manuel Jover Teles who advocate violent resistance to the Castello Branco government. On the basis of a recent document of the Central Committee, it appears the PCB is moving towards a more militant line. Even Giocondo Dias, considered a strongly Moscow-oriented moderate, has said that the PCB must prepare itself for the possibility of guerrilla activity in the rural areas. The anticipated temporary replacement of Dias by Mario Alves while the former undergoes medical treatment may signal an even further hardening of the PCB line.

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Leaders of the tiny, but strident, dissident Communist Party of Brazil (CPB) are reported to have recently joined forces in São Paulo with militant members of Ação Popular and of the Trotskyite movement. The CPB is also reportedly publishing a clandestine anti-government newspaper.

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"Hard-Line" vs. "Soft-Line" Within Military: The Role of the Military

In spite of the remarkably rapid adjustment that Castello Branco has made to political life, there is nothing to indicate that his awareness has been lessened concerning the necessity of maintaining military support--preferably united military support. The President has achieved this objective to a remarkable degree considering the diversity of opinions within the military and the process of political polarization which had taken place under the Goulart regime. Even so, the first 100 days were marked by an undercurrent of rumors and speculation as to divisions into "hard line" and "soft line" groups among the revolutionary military officers.

The President's apparent ability to maintain support of the majority of military officers is both a tribute to his leadership and a probable indication that most Brazilian military figures continue to prefer their historic reputation of being apolitical, i.e. they are "neutral-liners". Concomitantly, Castello Branco has effectively exerted his authority. He firmly resisted "hard line" pressure in favor of extending the period for applying Article 10 sanctions. He made only the slightest sort of a bow to the right in his action against Juscelino Kubitschek. The already-noted cautious use of punitive weapons in general is an even clearer example of his determination to follow a moderate policy of reconciliation.

It thus appears after the first 100 days that the "hard line" elements are currently not a serious threat to the regime. Castello Branco has found it possible and advisable generally to ignore them. Even so, as the initial revolutionary euphoria recedes into the distance to be replaced by latent discontent growing out of unsatisfactory economic and social conditions, the "hard line" military figures could become more of a problem. Opposition to the regime on the part of such figures as Lacerda could also tend to stir up middle grade and junior officers.

Coincidentally, much of the somewhat amorphous "hard line" activity swirls around the venerable figures of the one-time military ministers who tried to prevent Goulart's accession to the presidency--retired Navy Admiral Sylvio Heck, the Army's retired Marshal Odilio Denys and Air Force Brigadier Grun Moss. The Air Attaché reports that "a significant percentage of BAF officers" support Grun Moss, although the group "does not present any immediate threat..." The Naval Attaché feels (and we concur) that the Heck phenomenon is more of a personal political gambit than a military ploy. Most Navy officers appear to be reasonably satisfied with the regime. The most important sector for real or potential splits

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continues to be the Army. In spite of some obvious personal differences of opinion on methodology, etc., Castello Branco has thus far received the full support of War Minister Costa e Silva-- still considered to be the single most important element of control. (Costa e Silva's stand for extension of the President's mandate cannot be considered to have been a breach in this loyalty, since the President had privately let it be known that he would accept such extension.) There have been continued ~~vague~~ references to a "young turk" element within the Army, but organization, objectives, and leadership do not appear well developed.

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Despite these rumblings, the Embassy feels that at the end of the first 100 day period the "hard line" movement did not present a new revolutionary threat but rather it is a pressure group which might make more vigorous efforts to impose its will on President Castello Branco.

An entirely different aspect of the post-revolutionary military situation is presented when the political unity (rather than political diversity) within the officer corps is considered. During the early days of the Castello Branco administration, military influence was frequently evidenced--especially in appointments, removals and substitutions of personnel. Of the six post-revolutionary changes in governorships, for example, three vacancies were filled by military officers (the civilian vice-governors of

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Pernambuco and Sergipe acceded to power; a civilian took office as governor of Amazonas). Military interventors were the order of the day in government agencies and autarchies, and in many cases, military figures stayed on in positions of control after intervention was relaxed.

Likewise, one factor which contributed heavily to Congress' action extending Castello Branco's mandate was the support given through the publicly taken position "as a private citizen" of War Minister Costa e Silva. As has already been noted, the military has performed the major investigative functions into the evils of the previous regime.

To keep the military content of the present regime in proper balance, several factors should be recorded: (1) the military officer corps presented the revolutionary government with the most readily available, competent and trustworthy leadership pool upon which they could draw to fill vacancies; (2) the military is the normal and logical organ in Brazil to carry on much of the investigative work into subversive activities; (3) the Brazilian people are by-and-large grateful for the military's role in the revolution and, far from resenting the post-revolutionary activities of their uniformed compatriots, the citizenry has generally expressed public endorsement of this activity.

Turning, then, to the essentially unified position of the revolution-endorsing military, two noteworthy points become evident. (1) The "revolutionaries" are thoroughly convinced of the close call which Brazil had; consequently, they feel that the revolutionary victory, even though remarkably pacific, was not a sure bet. (2) Growing out of this psychological milieu, the military is determined not to repeat what they deem to be the errors of past parallel efforts. Thus, the military position takes on something of an aura of a crusade, the commanding cross of which is the eradication of the "Vargas legacy"--defined as being the recurring pattern of the mutual-feeding evils of corruption and subversive leftism in government--through a combination of immediate and slower-acting measures. (It should be noted that some differences understandably exist concerning what measures have to be taken now and which can and should be postponed for a time.)

The current determination of the military in regard to this last point should not be underestimated. An auxiliary factor is the support the thesis continues to receive from non-military sectors. The net result has been expressed in acts such as the

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extension of Castello Branco's mandate (to give him a longer period of time to achieve the desired goal), military endorsement of government policies--even in the economic/financial fields--etc. As has been noted in the field reporting during the period, the "staying" quality of the military is apparently inversely proportional to the success which the GOB achieves in solving basic problems and moralizing the government. Suffice it to be said that during the first 100 days, the military gave the definite impression that only an "acceptable" candidate will succeed Marshal Castello Branco--with "acceptable" individuals not yet having been chosen.

Political Reforms

New emphasis was given after the revolution to the perennial debate over "political reforms". The first 100 days of the new government were marked by a rash of new and old proposals concerning what should be done to improve the Brazilian political system. Briefs for and against a parliamentary system of government were dusted off. The idea of instituting a system of district representation was widely discussed. Almost all politicians agreed--at least in principle--that a reduction in the number of political parties would be highly desirable. What emerged from this welter of confusion were two basic facts: (1) there was general agreement that the existing political mechanisms had proved to be inadequate to meet the challenges of a developing Brazil and therefore (2) the peculiar climate existing in the wake of the revolution should be utilized in order to bring about the desired changes. At this point, of course, the unity of thought splintered. At times it seemed as if each individual of any political stature at all had a different idea on what medicine would cure the patient. However, the doctor actually performing the operation was Castello Branco, and he did not long hesitate in tackling the problem.

Majority Election of President

On June 24 President Castello Branco proposed six constitutional amendments to be acted on by Congress under terms of Article 3 of the Ato. Among the measures was a proposal that would modify existing political processes so as to bring about the election of future presidents by a majority of valid votes cast. Failing this, the election would be referred to Congress, where the plurality winner in the direct elections would compete with new candidates in a series of elimination votes.

The controversial measure was hotly debated (within the prescribed time limits). As the discussion developed, it became

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clear that Castello Branco was committed to the laudible goal of eradicating the inherent weaknesses which plague any minority President; he was not, however, intransigent in his position concerning the formula to be applied to achieve this goal. Thus, when the joint congressional committee established to study the proposals cast a favorable July 8 vote on the issues, the majority election provision had been considerably modified. For a few days the measure seemed imperiled; Governor Lacerda returned precipitantly from the United States to take up the banner of articulate (if increasingly isolated) opposition to the measure. However, on July 22, Congress completed the two required votings (or 'considerations') on the issue--held within a one-week period--in both of which it gave approval to the amendment.

As passed by Congress, the amendment provides for a direct presidential election. In the likely event that no candidate receives a majority of valid votes cast, the plurality winner's name will be submitted to Congress. If this candidate receives an absolute majority endorsement from Congress, he will become the new President. In the (entirely likely) event that the Congress does not give such approval to the candidate, a run-off direct election will be held throughout the country in which the two most-voted candidates in the original race will compete against each other. The Vice-President will be elected by virtue of his running mate's victory.

The long-range implications of the majority election provision are multiple. Presumably the mechanics now in effect will discourage spurious or marginal candidacies and therefore encourage coalition support of viable candidates. Such a development would seem to be a body-blow against the already-structurally weak "small parties"; however, the majority election does not explicitly bring about the reduction in the number of political parties. The most obvious and positive attribute of the measure is the fact that future Presidents will enjoy a clear mandate from the people. Theoretically, the system should also benefit from the fact that the majority election will be a very difficult prize to be won by primarily personalist politicians; party organization and structure should gain importance through this provision.

The effect of the majority election on party positions and the fortunes of prospective candidates is not entirely clear, although some observations can be made at this time. Lacerda's hopes had been based on a plurality victory (such as the one he received to become Governor of Guanabara.) In his vigorous opposition to the majority election measure, Lacerda accurately reflected

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the thinking of many to the effect that his chances of winning under the new rules would be considerably diminished. Similar arguments might be forwarded in relation to Adhemar de Barros, the other remaining still-declared 1966 hopeful.

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From the point of view of political parties, the new rules give increased value to the maintenance of the traditional PSD-PTB coalition. Assuming that the balance of congressional (and voting) power does not materially alter, this coalition should theoretically be able to (1) block absolute-majority approval in Congress of any candidate unacceptable to them; (2) conversely, the coalition should be able to give such an absolute majority to their own candidate if he should be the plurality winner in the first run-off; (3) if the issue is submitted to the people in the second direct election, the PSD-PTB would count on the probability that a center-left candidate should be able to defeat a center-right candidate in a two-way race. Faced with this prospect, it would not be surprising if other political parties were to support anti-coalition measures which would force the PTB and the PSD to run independent candidates; at the same time, other parties are likely to cover their bets by working for coalition strength themselves, although there are few meaningful "natural alliances" among Brazil's fractionalized party structure other than the PTB-PSD grouping.

Castello Branco's Mandate Extended

During the period of the joint congressional committee's consideration of the executive-proposed constitutional amendments, Senator João Agripino introduced a "sub-amendment" to the majority election item which dealt with the extension of Castello Branco's mandate. The issue rapidly became the most hotly-debated item of the lot. Opponents led a losing battle (captained by Carlos Lacerda) based on the arguments that (1) Castello Branco himself had repeatedly publicly rejected the idea of such extension; (2) the Ato specified a turnover of power on time--i.e. January 31, 1966 and (3) an extension would establish a dangerous precedent à la Estado Novo. Governor Magalhães Pinto raised the flag around which supporters of the amendment rallied. Their basic arguments were that (1) the Castello Branco administration needed the additional time to "consolidate" the revolution and (2) the extension of the President's mandate would bring about a coincidence in mandates of elected federal office holders.

Looking beyond these public positions, it was evident that a deeper political motivation on the part of both adherents and detractors was the political advantage to be gained or lost.

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Lacerda advanced a frank thesis (which seems to have also been held by some of his chief opponents) that any "revolutionary" candidate would have a better chance of winning the presidency in 1965 than in 1966--based on the logic that the "opponents" of the revolution would still be in a state of some disorganization and discredit at the earlier date. The opposite of this argument was equally defended by revolutionary figures including War Minister Costa e Silva--namely that success of the Castello Branco administration will ensure an easier 1966 victory for an acceptable successor.

The issue was not submitted by the executive under the special Ato rules. However, in the absence of any concrete parliamentary protests from the administration, Congress proceeded to lump the issue with the other proposals. The first vote on the issue resulted in a bare absolute majority (205 members) of the Chamber voting in favor; this minimum was achieved only after some definite pressure tactics. By the second voting, however, the supporters of extension had more carefully lined up their support and 238 deputies joined the necessary Senate majority to pass the measure.

Essentially the Agripino amendment provides that: (1) elections for Federal deputy, senator, president and vice president shall be held simultaneously throughout the country; (2) the mandates of the current incumbents are extended until March 15, 1967, with the next elections now scheduled to take place in the Fall of 1966; (3) from henceforth the presidential and vice-presidential terms of office will be of four year's duration.

Mixed Results on Measures Increasing Size of Electorate

Perhaps no single measure proposed by the administration on June 24 aroused deeper political feelings than the suggestion that limited voting rights be granted to illiterates. According to the constitutional amendment submitted, these previously proscribed individuals would henceforth be permitted to vote in municipal elections. Even before the issue was forwarded to Congress under terms of the Ato, debate became heated with charges that Castello Branco was resorting to Goulartist demagoguery, etc. Even so, the joint congressional committee voted favorably on the measure along with other proposals. In the first voting, the Chamber mustered a bare absolute majority (205 votes) in favor of the item although the Senate gave more than adequate support. The second time around, the Chamber only gave 201 votes in favor of enfranchising the illiterate; thus the measure failed by four votes.

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The administration obviously did not work very hard for passage of this particular measure. Thus while there were overtones of a test-of-strength of Congress' ability to reject proposals forwarded under terms of the Ato, the amendment's submission seems to have been more of a political ploy which Castello Branco used as a hedge against leftist criticism than a point to which the new government was firmly committed. At any rate, its rejection has not resulted in any notable lamentation on the part of the administration. The real test of Castello Branco's intentions on this particular issue will come in the submission (or lack thereof) of the measure in a modified form.

On a lesser scale, the configuration of the Brazilian electorate was modified by the final July 22 passage of a constitutional amendment which extends the right to vote and hold elective office to all literate members of the armed forces who are in full possession of their political rights. Members of the military who run for elective office will be transferred to inactive duty during the campaign. Military men who have less than five years of service will have their armed forces' status terminated upon becoming candidates; those with longer service who are successful in their political efforts will be transferred to the reserve or retired upon taking office.

Major Organizational Changes Within Executive

For the most part, the new GOB has continued to operate with essentially the same organizational and bureaucratic structure which existed under Goulart (much of the structure is fixed by law). There was, however, a nearly complete turnover in the personnel at the policy-making and top executive levels.

In addition, three basic organizational changes which took place during the first 100 days were of particular interest. On June 13 Congress approved the creation of a National Intelligence Service (SNI). The principal mission of the SNI was described as the "supervision and coordination of intelligence and counter-intelligence activities throughout Brazil, particularly in those matters which relate to National Security..." President Castello Branco almost immediately appointed retired Army General Golbery do Couto e Silva as Chief of the SNI. The position is at the Cabinet level. Upon assuming his post, the General commented that his would be a ministry of silence--i.e. playing down any internal propaganda functions which might be attributed to the SNI and conversely pointing up the intelligence-gathering nature of the body.

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In a related change, Castello Branco has given increased attention to plans for strengthening the Federal Police. He has instructed the new head of the Federal Department of Public Security, General Riograndino Kruel (brother of Second Army Commander Amaury Kruel) to develop plans for such improvement. It is anticipated that the next step will be the substitution of a Federal Investigation Department (DFI) for the current Federal Department of Public Security. The close coordination and collaboration between the SNI and the possible DFI would do much to improve law enforcement procedures.

In the third major bureaucratic change, Congress approved the President's plan to create a Ministry of the Interior. The new Ministry is charged with overseeing the activities of a number of important autarquias, including SUDENE, SPVEA, and the Federal Territory Administration. Revolutionary General Cordeiro de Farias assumed office as the Cabinet-level Minister of Interior on June 24. There were some rumors to the effect that the slot had been created specifically to provide a position for the General. Cordeiro de Farias' inclusion in the Cabinet is certainly a politic move, but the need for an intermediary link between the President and some of the subordinate agencies was probably the prime motivating factor in his appointment.

Brazil on the International Front

Perhaps the most singular quality of post-revolutionary Brazilian foreign policy has been the re-emphasis given to the country's historic western orientation and a concomitant cooling of relations with the socialist bloc nations. Castello Branco's retention of interim President Mazzilli's Foreign Minister, Vasco Leitão da Cunha, served to underline this change in foreign policy. Career diplomat Leitão da Cunha (who had served as Brazilian Ambassador to Cuba and the Soviet Union) stated at the outset of the new government that since Brazil is "a conscientious integrant of the Western world, it is natural that its relations be more intimate and more profound with those countries with which we are linked through a heritage of common ideals and with which we share the same aspirations of freedom and progress..."

A second guideline of the new Brazilian foreign policy is the emphasis given to trade and commercial relations. Leitão da Cunha, President Castello Branco, and other GOB officials have repeatedly stressed this aspect of the country's international relations, noting that Brazil seeks to increase its trade relations with all countries of the world--including the socialist bloc. In

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recapitulating the "problems" of Brazilian foreign policy after the first 90 days of the Castello Branco administration, Foreign Minister Leito da Cunha listed the following in order of priority: (1) "to re-establish Brazil within the context of priority relations with the West...", (2) "to work for the amplification of the market for Brazil's export products...", and (3) "to work tirelessly in the field of bi-lateral relations with the major clients of our products and raw materials and in the international forums where the problem of improving prices of our export products is under discussion..." (Embassy's A-40 of July 10, 1964).

In keeping with these master-tenets of policy, a singularly important expression of the ~~increased~~ pro-Western orientation of the new government was the May 13 unilateral break in diplomatic relations with Fidel Castro's government. In explaining the break, the Foreign Office cited Cuba's interference through diplomatic channels in Brazil's internal affairs and the fact that the Castro regime had not recognized the new revolutionary government.

Other diplomatic recognition problems caused concern from the Brazilian point of view. A short-lived quasi-rupture with Mexico was precipitated by the April 30 departure of Mexican Ambassador Alfonso Garcia Robles. Garcia Robles' elevation within the Mexican diplomatic hierarchy had been announced earlier; however, his departure from Brazil without the naming of a Chargé plus the Mexicans' failure to acknowledge the GOB's note announcing the change in government greatly incensed the Brazilians. The extreme sensitivity to foreign criticism of the revolution combined with the Mexicans' application of their time-honored "Estrada" doctrine led to the recall of the Brazilian Ambassador to Mexico. Upon his departure for Brazil, Ambassador Pio Correa was quoted as having said "...a bilateral 'Estrada Doctrine' is better than a unilateral 'Estrada Doctrine'..." By early June, however, the situation returned to near normal with the reciprocal naming of Chargés in the respective capitals and the mutual anticipation of an early exchange of Ambassadors.

Still another thorny Latin American diplomatic problem centered around Venezuela's application of the "Bettancourt Doctrine" in relation to the non-recognition of regimes which come to power through exceptional changes in leadership. The announcement of the "suspension" of relations between the two countries on April 19 offended and confused many Brazilians. The supporters of the new regime defended the position that Venezuela's stance was based on non-critical application of a policy while the sister-republic's

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true interests would be served better through strengthening ties. After all, reasoned the Brazilians, the new government had done a service for all Latin American nations in their fight against communist subversion.

Notable among improved foreign relations since March 31 are those with France. Strained to the point of withdrawing Ambassadors with the "Lobster War" of January, 1963, both countries have now resumed full representation and are busily preparing for President DeGaulle's scheduled state visit in October.

The fortunate timing of West German President Luebke's state visit (A-1390 of May 22, 1964) gave the Castello Branco government a needed prestige boost and proved to be an invigorator of renewed German/Brazilian commercial relations.

Probably the least affected of all the Ministries during the period of Article 10 sanctions of the Ato Institucional was the Foreign Office. Although influential sectors stood for suspension of political rights in depth, only five diplomats were finally dealt with in this manner; Jayme de Azevedo Rodrigues, Jatyr de Almeida Rodrigues, Antonio Houaiss, Eugenio Caillard Ferreira, and Hugo Gouthier. Pressure for punitive action against Goulart's foreign ministers was notably absent in the case of Araujo Castro, Goulart's last appointment. Castro was forthwith absolved of responsibility for Goulart foreign policy by his appointment as Ambassador to Greece.

The weight of international public opinion and criticism have had their greatest effect in the formulation of foreign policy. Naturally, Brazilian diplomats serving abroad are more sensitive to the international public image of the regime than are those who justifiably concern themselves more exclusively with the internal aspects of the Brazilian problems. The Castello Branco government authorized Carlos Lacerda to "explain" the revolution during his May-June visit to Europe and the United States. With the exception of France, where Lacerda created such a scene that he apparently ruffled even DeGaulle's feathers, his stint as official spokesman probably had a positive effect.

As the Brazilian revolution was naturally succeeded in world headlines by other political events, the GOB's international composure and confidence returned to a more normal level.

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LABOR

Post Revolutionary Labor Developments

The Castello Branco Government has been faced with a particularly difficult situation in the labor area following the revolution. A summary statement of some of the problems in this field defines the scope and nature of the task facing the revolutionary regime. (1) More than in any other single area, the problem of communist subversion had reached serious proportions in the labor movement. (2) The leadership layer in the labor movement is especially thin; thus with the mass removal of top sindical leaders, the GOB was forced to rely on sometimes dubious union leaders (both from the point of view of their capability and honesty) for replacements. (3) The inflationary process has much of its most immediate political impact on the buying power of the common worker; therefore, any GOB wage policy was (and is) predestined to face the dual perils of being unpopular if it is an anti-inflationary austerity measure and of being inflationary if it meets the basic demands of the workers--regardless of the justification of the arguments that these groups might present.

The leadership removal/substitution problem in the labor area merits separate comment. Under the provisions of Article 10 of the Ato, at least 68 prominent labor leaders had their political rights suspended. This number includes the presidents of three of the six national confederations. The former board-of-directors of the National Confederation of Industrial Workers (CNTI) was removed almost in toto. The National Confederation of Bankworkers (CONTEC) and the National Confederation of Air and Sea and River Transport (CNTTMFA) suffered lesser but still severe depletion in their leadership ranks. At the same time, it should be noted that the percentage of actual communist party members who suffered the sanctions was higher in the labor field than in any other area; there is little doubt but that action in almost every case was highly justified.

With these factors in mind, the mixed-bag results of the GOB's performance in the labor field during the first 100 days are not surprising.

On the positive side of the ledger, we note the following achievements: The CGT, FUA, CPOS and other similar communist-front or communist-influenced spurious labor organizations have been closed down, eliminating one of the most active areas of subversion. Leadership of these Goulart-supported and supporting organizations

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has likewise been generally eliminated (at least for the time being) through Ato sanctions. The Castello Branco Government has won international support from many influential western-oriented labor organizations including ORIT, AFL-CIO, the ITS, etc. The government won an important international point at the Geneva ILO Conference by defeating attempts of the WFTU to embarrass Brazil on the question of the arrest of ILO official Clodsmidt Riani. The President and other members of his administration have made statements promising that the GOB will follow an enlightened labor policy--supposedly aimed at freeing the Brazilian labor movement from its historic domination and control by the government. In this connection the new regime has gone on record as being in favor of the elimination of the labor tax (imposto sindical), the primary financial control instrument which past governments have used in their control of the labor movement. (However, no positive action in this regard has taken place to date.)

The first 100 days also was marked by the passage of right-to-strike legislation (pending since 1949). It should be noted that the law makes it extremely difficult to call a strike; for this reason, along with other factors, the post-revolutionary period has been almost completely free from strike activity. As noted elsewhere in this paper, the GOB is attempting to bring about some stable, consistent wage policies within the government sector. As already noted, the problem in this area is to balance the austerity arguments against the very real ravages of inflation.

As a last major point of achievement, the government's intervention policies should be discussed. While there are obviously arguments against the interventions--especially the reluctance in some cases to call for new union elections--the overall policy is seen as having been part of a necessary cleansing process. Approximately ten percent (409 of 4,162) of all trade unions in the country were intervened following the revolution. Most, if not all, of these unions had been under communist control or were heavily influenced by the communists. On the national level, four of the six national confederations were intervened. However, the GOB moved quickly to annul the January, 1964, CNTI elections; new elections were held in late May with the participation of the 34 federations not under government intervention.

On the liability side of the labor ledger, several points developed during the first 100 days which bear attention. To begin with, relatively few of the individuals who had been primarily responsible for the previous subversion of the movement have been positively accounted for. This opens up the possibility that these individuals might be working against the GOB clandestinely. There

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have been few valid tests of the latent labor sympathy for the previous leadership and policies; however, an election within the insurance workers' sector of CONTEC resulted in a narrow (5-4) victory for the government-supported democratic slate, possibly indicating that communist influence in this particular area is still alive and active.

Some of the positive effects of government statements concerning the reform of the labor structure have been dulled by delays. There are some reports that opposition by employers and in government might result in the shelving of the proposed revision of the labor code.

The government's labor policies have come in for criticism on the international scene by the International Federation of Metal Workers and by the IFCTU and CLASC. The PTTI within Brazil has recently criticized the GOB for what it terms improper jailing of democratic trade union leaders in Porto Alegre and for continued intervention in the telephone workers union.

There is some feeling among labor circles that the government's wage policies are resulting in the workers' bearing an undue share of the economic hardships attendant with the government's new economic policies. Many democratic leaders feel that their inability to produce wage and other material benefits for their membership has created a situation in which democratic leadership may become so discredited as to be defeated in free elections following government intervention.

ECONOMIC

The Government's Economic Program

The performance of the Castello Branco government in the economic field must be appraised against the magnitude and complexity of the economic problems which were inherited from the Goulart regime and several additional factors which have affected the ability of the new government to move rapidly toward a solution of these problems. The most serious and pressing of the problems were inflation and economic stagnation. Inflation, which had reached a rate of about 80 percent in 1963, rose to an annual rate of 135 percent in the first quarter of 1964. The growth of the economy, which had averaged 6 to 7 percent per year for nearly a decade, fell to 2.2 percent in 1963. Per capita GNP actually declined. Private foreign investment, which had played a key role in the growth of the fifties, virtually ceased in 1963, and in the

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last months of the Goulart regime, there probably was a net movement of such capital out of the country. The government was almost totally without foreign exchange reserves. Faced with a heavy schedule of external debt service payments which it could not meet, the government was in a virtual state of bankruptcy. Many of the best of the government's administrators had left the government service, and the administrative apparatus of the state was generally demoralized and operating at below normal efficiency.

While there had been some advance planning for the revolution, such planning had not extended to the formulation of an economic program nor had it included the men who were to occupy the most important economic posts in the new government. The government, therefore, had no economic program when it came to power. Moreover, the immediate effect of the revolution and its aftermath of imprisonments and investigations was to add to the disorganization of the ministries and such important economic entities as IBC, Petrobras, and SUDENE. Throughout the period covered by this review, but especially in the first weeks, a large share of the time and energy of the top economic officials of the new government have had to be devoted to problems of staffing and organization.

On the other hand the existence of broad popular support for the revolution, and the powers provided the executive under the Ato, have given the Castello Branco government a unique opportunity to attack Brazil's economic problems. Especially during its first 60 days, the new government had virtually carte blanche to put new measures into effect. Although the Congress has been markedly more independent since June 15 and criticism and opposition from the press, politicians and special interest groups have tended to increase with the passage of time, the principal limitation on the effectiveness of the new government in the economic field has been its own ability to devise remedies for Brazil's economic ills, to present them persuasively to the public and the Congress, and to administer them effectively.

Stabilization Policies and Performance

The new Government's general financial policies are guided by the objective of reducing inflationary pressures and ultimately achieving relative price stability, while at the same time promoting an aggregate increase in economic activity and a generally-improved financial environment for economic growth. The approach toward stabilization is avowedly "gradualist", since the Brazilian policy makers are convinced that a sharp dramatic attack on inflation would be inadvisable, both in terms of the political possibilities

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of the administration and the kind of adverse effects on the level of production and employment that such a program would be likely to cause. The Embassy shares the belief that a relatively gradual approach to the reduction of inflationary pressures is to be preferred. Brazil does not have either the administrative apparatus or the widespread public understanding and support that would be necessary for a successful crash program to attack inflation. Furthermore, since the Brazilian economy is operating at a relatively high level of utilization of its productive and skilled labor resources, it would appear dangerous to undertake measures which would run the risk of slowing down aggregate production of employment, even temporarily. A third factor that must be considered is that much of the cause of inflation in Brazil resides in the government's budget deficit, the large share of government in the formation of the GNP and the inefficiency and waste in government expenditures. Any crash program to fight inflation would perforce entail taking away more resources from the private sector in order to finance the deficit in the public sector, which would conflict with the longer-term desirability of strengthening the private sector.

Given agreement with a gradualist approach, an evaluation of the Brazilian Government's performance in the stabilization field in the first 100 days boils down to the speed, efficiency, and realism with which the stabilization problem is being attacked. In this respect, the record is far from perfect, but not unimpressive considering the problems the government has had in organizing itself, in finding qualified people to fill key positions and in formulating and in reaching agreement on complex economic and financial policies within a government where many of its key members (i.e., the military) have had little previous exposure or experience in the economic field.

Enclosure (1), listing legislative and executive measures taken or planned, shows much significant and constructive activity on the financial front. The government deficit is being attacked. This is being done both through a program of aiming at reducing potential government expenditures in 1964 from about R.\$3.3 trillion to less than R.\$2.6 trillion and raising revenue mainly through tax measures (the omnibus financial bill and the increase in consumption tax) which have already been passed or are under consideration in the Congress. The government's import subsidies (on wheat and petroleum) have been lifted, and a beginning has been made in attacking the problem of operating deficits of government enterprises. In this respect, certain raises in rates charged by the railroads are of

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some importance. More important are various actions affecting personnel, including the provision in the pay bill for civilian employees prohibiting pay raises in government enterprises in excess of pay for comparable jobs in the civil service, the elimination of special bonuses in government corporations, and several measures looking toward restricting future appointments in the civil service to persons qualified through competitive examinations and giving the government authority to dismiss employees who do not have permanent status (a provision in the recent civil service pay bill also gives the government potential authority to eliminate up to 50,000 jobs).

The weakest part of the GOB's stabilization performance thus far concerns the large pay increases which were given to the military (about 170 percent) beginning April 1, and to the civil servants (about 110 percent) effective June 1. These increases were in excess of the cost-of-living increase (the cost of living in Guanabara between June 1, 1963, and June 1, 1964, increased about 95 percent) and constitute a great handicap in efforts to reduce the 1964 budget deficit. This factor, added to the general difficulty of coping with the disastrous economic/financial inheritance passed on by the Goulart administration, will mean that in terms of actual results in reducing the rate of cost of living increases during 1964, it will be difficult for the government to show any great improvement over last year. Nevertheless, there are extenuating factors, in that the seasonally adjusted annual rate of price increases in the first quarter of 1964 under the Goulart government was in excess of 120 percent, and many of the corrective measures which the new government has taken, such as the lifting of subsidies of petroleum and wheat and increases in the rate structure of services by government corporations in themselves, give a temporary upward push to the price level. Considering all these things, it is not a small achievement that the cost of living during the second quarter of 1964 increased by 14.9 percent, while the increase in the first quarter under the old government had been 23.9 percent.

The new wage policy approved by the government should help prevent a repetition of undue wage increases in the future. This policy determines that wage adjustments should take place not more frequently than once a year and should have the aim of maintaining the average real wage over the previous two years, rather than the peak real wage. The main test of the new government's ability and willingness to attack the inflation problem firmly and systematically, even if gradually, will come in 1965. For this the outlook is relatively good, although much work remains to be done. There is

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much evidence that the GOB is seriously moving toward achieving a significant turnabout in the anti-inflationary fight during 1965.

Economic Development Policies

From the outset the new government has been keenly aware of the pressing need to get the process of economic growth started again in Brazil. Although no explicit program to achieve this objective has been enunciated, many of the actions and measures initiated or under study have had this goal as a primary or secondary objective. Thus there is emerging a reasonably consistent and coherent plan of attack on the problem of development, the main elements of which are as follows: (1) re-establishment of confidence in the respect of the government for property rights and in the integrity of the government in its dealings with the private sector; (2) stimulation by various means of the growth of the public sector; (3) efforts to mobilize and direct domestic savings into productive channels; (4) efforts to improve the climate for private foreign investment; (5) an effort to initiate effective developmental planning in the public sector; and (6) a reorientation of the government's attitude toward the Alliance for Progress and more effective efforts to utilize foreign aid. *growth*

Since the use by Goulart of economic weapons to gain political ends was one of the principal grievances which brought on the revolution, his ouster resulted in an immediate upsurge in business confidence. Confidence was further bolstered in the first weeks following the revolution by the character and caliber of the men appointed to key economic positions in the government. A major speech by interim President Mazzilli, largely written by Finance Minister Bulhões, and subsequent public statements by President Castello Branco and his principal economic ministers left no doubt of the government's intention to encourage growth in the private sector of the economy. The revocation of Goulart's "agrarian reform" decree early in April had a significant psychological impact, since that decree had become a prime symbol of the Goulart government's contempt for property rights and its ruthless use of economic power to gain political ends. However, by failing to nullify another of Goulart's last economic measures, the expropriation of the private petroleum refineries, the government missed an opportunity to promote with even greater consistency the policies with respect to private enterprise enunciated in its public statements.

Subsequent actions of the government have tended to bear out the government's early promises to promote private enterprises.

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Its efforts to restrict the rate of monetary expansion have been largely devoted to reducing the deficit in the government sector, and it has been careful to provide the private sector with a reasonably ample supply of bank credit. The outlook for private enterprise in the area of public utilities has brightened substantially. The government no longer adheres as a matter of principle to a policy of taking over private public utilities and has stated its intention to follow a rate policy which will enable public utility enterprises to operate profitably and to expand. Substantial increases in power rates have already been put into effect. In the minerals field, a radically new policy has also been enunciated which offers a major role for private enterprise in the development of minerals production. The recent approval by the Ministry of Mines and Energy of the Hanna Company's project for an iron ore and coal terminal at Sepitiba Bay is concrete evidence of the new orientation of the government with respect to minerals.

A number of the government's measures contain features intended to stimulate saving and to encourage the utilization of savings both for desirable types of investment and to reduce the rate of inflation. The problem of stimulating saving in an inflationary situation has been tackled by providing in the Omnibus Financial Law for the issuance of treasury bonds adjustable in face value on the basis of an inflation index. The housing bill provides for similar adjustments to be made in savings accounts, mortgages on low-cost housing, and bonds issued by the National Housing Bank. The Omnibus Financial Law provides for increased sales of treasury bonds by instituting a payroll tax to be invested in bonds for the purpose of creating a workers' indemnification fund, and by requiring corporations to revalue their capital and providing them with the alternative of either paying a 5 percent tax on the amount of the revaluation or purchasing bonds to the value of 10 percent of the amount of the revaluation. Another feature of the Omnibus Financial Law which provides for a 30 percent surcharge on import foreign exchange in lieu of the 100 percent or 200 percent prior deposits now required, is designed to reduce the flow of available investment funds into the financing of imports in the expectation that an increased share of such funds will be diverted into other more desirable channels. Still another project of the government which is still in the draft decree stage contemplates the establishment of a "Fund for Public Participation in Ownership of Corporations". This fund is to be used for working capital loans to industry with preference given, *inter alia*, to firms which open up their ownership to public participation. Comments on some specific aspects of the GOB's economic and social reform proposals are attached as Enclosures (1) and (2).

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A major effort has been concentrated on improving the climate for foreign private investment. That climate was improved immensely by the mere fact of the revolution, by the character of the new government, by its numerous favorable policy pronouncements, and by its efforts to deal with the problem of inflation and Brazil's balance of payments problems. The government has proceeded, however, to take specific steps to clear away major obstacles to a resumption of private foreign investment in Brazil on a significant scale. The most important of these has been the sponsoring of legislation to remove all of the most objectionable features of the Profits Remittance Law enacted in September, 1962. This legislation has been passed by both the Chamber of Deputies and the Senate, but the narrowness of the margin of victory in the lower house has served as a reminder that economic nationalism remains very much alive in Brazil.

The government has also entered into negotiations with the U. S. for an investment guarantee agreement, and there are good prospects that such an agreement, after years of intermittent negotiations, will be signed within a few weeks. The government has also come to grips with the problem of the purchase of the Brazilian properties of the American and Foreign Power Company, which for U. S. investors has become something of a touchstone of the new government's intention to deal fairly with foreign private capital. There are good prospects that the government will soon honor the commitment made by the Goulart government in April, 1963, by signing a contract for the purchase of these properties.

The almost total lack of economic planning of the last year of the Goulart government has been replaced by a planning effort which already has produced some good results and shows promise of developing into a more effective operation in the future. Roberto Campos was an excellent choice to fill the portfolio of Minister of Planning and Economic Coordination. Operating with a very small staff, he has acted primarily as an "idea man" and catalyst, drawing on the personnel of the operating ministries and agencies and on individuals outside the government for most of the detailed planning work. Much of Campos' early planning work went into devising and drawing up legislation for the low-cost housing scheme and for agrarian reform. More recently, efforts have been concentrated on drawing up the 1965 budget, in drawing up a budget-related economic and financial program for 1964-65, and in laying the basis for the development of a long-term economic plan which will include sectoral investment programs for the period beyond 1965. The budget submitted to the Congress at the end of July and

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the related economic and financial program appears to represent a considerable advance over any similar work done in Brazil in recent years.

Despite the turnover in a large number of key positions and the administrative confusion resulting therefrom, the new government has done a far better job than its predecessor in playing its role as aid recipient. The rate of obligation of available PL 480 cruzeiros for development purposes was stepped up considerably. Better cooperation on the Brazilian side made possible a greatly enlarged volume of submissions to Washington of project loan applications in the last quarter of the U. S. fiscal year. The government acted during June to allocate to various projects the German aid credit of 200 million Deutchmarks, which had long remained unutilized owing to the failure of the Goulart government to make decisions as to the use of the funds, as specified in the loan agreement.

During the first 100 days of the Castello Branco administration, approximately one-quarter of a billion dollars in U. S. and IDB assistance has flowed into Brazil. This amount (more than double of that which entered during the previous nine months) directly reflected the improved developmental climate created by the new government. While some of the funds have been provided to support on-going programs already in progress, the period under review was marked by an impressive list of new projects which are in keeping with the goals and intent of the Alliance for Progress. A summary of the more important new projects is attached as Enclosure (3) to this airgram. X

Of the \$235.2 million dollars of aid mentioned above, approximately \$125 million has been authorized in the form of dollar loans. This amount includes a program loan of \$50,000,000 in support of Brazil's stabilization, development and reform programs. The cruzeiro counterpart funds generated from this loan can be used for non-inflationary financing of basic activities such as maintaining and expanding employment and increasing agricultural productivity. Specifically, these counterpart funds will be used to finance low-cost housing, for working capital for industry and to expand agricultural credit for medium and small farmers.

GOB Efforts in Field of Economic Reforms

The government describes its economic program as having three principal objectives: stabilization, economic development, and

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reform. Of these, the effectiveness of its reform program is most difficult to judge. Although there are elements of reform in many of the legislative measures proposed and in the executive actions of the new government, only a few of the measures proposed have reform as their principal objective. Potentially the most important of these, and the most controversial, is the agrarian reform project (discussed below).

A second measure which the government regards as part of its reform program is legislation providing for a low-cost housing program. This measure has passed both houses of Congress and now awaits signature by the President. The legislation provides for the establishment of a National Housing Bank to coordinate and to mobilize capital for a program of slum clearance and low-cost housing construction. Bonds of the bank, housing mortgages, and savings accounts in certain types of institutions are to be adjustable in their face value on the basis of an inflation index to be established by the National Economic Council (see Enclosure (1)).

A third measure now before Congress deals with banking reform. This bill has been less a government measure than a personal project of Denio Nogueira, Executive Director of the Superintendency of Money and Credit (SUMOC). It was not submitted to Congress under the provisions of the Ato, and therefore it has been moving slowly. The measure would create a new Monetary Council which would determine monetary policy, would transfer the rediscount and currency issuing functions and operations of the Bank of Brazil to SUMOC, and the Bank's Foreign Trade Department to the Ministry of Commerce and Industry. Adoption of the measure would constitute substantial progress toward the creation of a genuine central banking system.

The GOB has also taken a number of steps in the direction of improving operations and administration of the public sector. The entire tax system has been under careful study, and legislation to reform the system is scheduled to be submitted to Congress by the end of September. The government has requested and is being provided with the services of a team of U. S. tax experts. Two measures have been adopted to reduce tax evasion: the first providing criminal penalties for making false tax declarations, the second providing for the revaluation of taxes in arrears on the basis of an inflation index. The civil service pay bill of June 26 authorized the elimination of up to 50,000 civil service jobs. (A number of Presidential decrees dated July 31, implementing a provision of the civil service pay law, fixed the tables of organi-

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zation of seven autarquias, thereby apparently eliminating the jobs of a number of illegally-appointed job holders and providing for the replacement of a number of interim job holders by candidates selected by competitive examination. Wildly speculative press stories have estimated the number of dismissals at as high as 120,000). Constitutional amendments submitted to the Congress on June 26 provide for uniform pay scales in the three branches of government and, if passed, will eliminate the present constitutional provision under which temporary employees are granted permanent civil service status after five years of service. According to the provisions of the Civil Service Pay Law, on January 1, 1965, retired civil servants will begin for the first time to be remunerated on a lower scale than active civil service workers of the same grade. In an effort to bring some order out of the present chaos of the civil service, a complete census of civil service jobs and employees is to be undertaken as soon as expenditure of the needed Cr.\$50 million is authorized.

While these steps constitute a commendable beginning on the immense problem of reform in the public sector, a great deal more needs to be done, particularly in the establishment of controls over expenditures and in the operation of the autarquias and government enterprises. Although they are among the reforms most urgently needed in Brazil, they are not among the socio-economic reforms, of which agrarian reform is typical, which leftist and liberal elements have come to expect and to which, for political and psychological reasons, the new government has given highest priority.

Developments and Policies Affecting the Balance of Payments

The Revolutionary Government inherited from its predecessor a nearly calamitous situation in Brazil's external financial position and relationships. On March 31, official net gold and convertible foreign exchange reserves were down to only \$11 million, while arrears in current payments for imports and financial commitments were officially recorded by the Bank of Brazil on the same date at over \$162 million. While external financial assistance for the balance of payments from governments, international institutions, and private banks had for all practical purposes dried up, the country was confronted with huge external debt service obligations on medium and long-term debt of about \$735 million of principal and interest during the two years, 1964 and 1965. Many of the payments due on this debt in the first quarter of the year were already in default. As a further complication, the

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generally adverse climate for private foreign investment had contributed to a tendency of private investors to redeem "swap" contracts, of which no less than \$324 million were scheduled to mature in the two years, 1964 and 1965. Thus, adding medium and long-term debt, "swaps", and arrears, various debt service obligations hanging over Brazil in this two-year period totaled over \$1.2 billion, equivalent to about 90 percent of Brazil's total average annual export earnings in recent years.

During its first 100 days in office, the new government has gradually but systematically taken steps to extricate Brazil from the morass of balance of payments problems into which Brazil had fallen. The task has by no means been completed, and performance has been somewhat uneven. Nevertheless, solid progress has been made, and the outlook is promising for further constructive measures toward recuperation in Brazil's external financial position.

As immediate relief measures, the Brazilian government has given priority to negotiations for the rescheduling of debt with foreign creditors. It has also worked to re-establish cooperative contacts with the U. S., other creditor governments, international institutions and private banks and to improve the foreign investment climate both to attract long-term foreign capital and to stop the immediate drain on "swap" redemptions. As longer term measures, the Brazilian Government has taken some actions to improve and liberalize the exchange system and to promote exports. Above all, the Government is moving toward developing a comprehensive economic and financial program of internal and external policies and measures which it expects to use as a basis for negotiating with the IMF, the U. S. and other creditors for new credits.

While conversations with major creditors in the context of the "Hague Club", comprising leading Western European countries, the U. S. and Japan, had begun in March, the previous government's initiatives in this respect had made very little progress due in large measure to its excessive demands and inept handling of negotiations. In active consultations with the U. S., the new government brought to the creditors a much more realistic and carefully prepared proposal with the result that the "Hague Club" creditors on July 1 agreed to refinance Brazil's debt payments due in 1964 and 1965 on project credits from governments or guaranteed by governments. The agreed formula calls for debt relief equivalent to 70 percent of the principal and interest due

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on such debt over these two years. The total relief agreed upon is estimated to amount to about \$194 million for 1964-1965. Brazil is now engaged in active bilateral negotiations with a view to implementing the "Hague Club" agreement by September 1.

In addition to the Hague Club agreement, Brazil has virtually completed negotiations with the United States for rescheduling repayments of balance of payments credits from the Treasury and the Export-Import Bank totaling about \$51 million in 1964 and 1965. The negotiations are aimed at spacing out payments more evenly and bringing net debt relief for Brazil over two years totaling \$35 million.

As a final item of debt, the Brazilian government has made preliminary soundings with U. S. private creditors about the possibility of rescheduling credits with U. S. suppliers in accordance with a formula roughly similar to that negotiated within the Hague Club. The initial soundings have been promising, and the Brazilian government is about to send an official mission to engage in formal negotiations with the U. S. private creditors. If the Hague Club formula were applied to the estimated \$112 million worth of principal and interest payments due to U. S. suppliers in 1964 and 1965, the potential relief from this source could be as much as \$78 million.

Including the net debt relief of \$24 million already agreed with the IMF, successful completion of all negotiations would result in debt relief of about \$331 million, representing relief from about 45 percent of all medium and long-term principal and interest payments originally due in 1964-1965.

Even with debt relief of this amount, debt service payments will continue to be substantial in 1964 and 1965, but will be reduced to levels much more realistically within the ability of Brazil to pay than the original schedule. The debt schedule in 1966 will also still be heavy, but Hague Club discussions indicated considerable disposition on the part of the creditors to examine 1966 maturities at some future date.

The new Government's policies have opened the way to a \$50 million AID program loan authorized in June and \$81.3 million of AID project loan authorizations during the first 100 days of the new government. Some restoration of Brazil's credit facilities with private banks has occurred with short-term credits of \$10 million having been obtained from the First National City Bank

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and an overdraft of \$5 million to be established with the Chase Manhattan Bank. Signs of Brazil's new sector activity in enlisting international financial support has been Brazil's invitation for the visit of an IBRD mission (which visit took place in June and promises to result in at least \$75 million worth of new loans this year) and the active role played by Brazil in the recent CIAP meeting.

Although the new government has not yet felt itself in a position to develop a complete new approach to foreign exchange policy, it has taken a number of constructive steps toward a unified exchange rate, the level of which would be generally determined by market forces. Building on the exchange depreciation which had been undertaken by the previous government in February (SUMOC Instruction 263), the new government has achieved a virtual unification of exchange rates through measures eliminating import subsidy exchange rates for petroleum, wheat and newsprint (SUMOC Instruction 270) and the later bringing of the coffee export rate in line with the general exchange rate structure (SUMOC Instruction 272). The exchange rate has been kept at its February level of Cr.\$1160 buying - Cr.\$1200 selling by the Bank of Brazil, but the new government officials have indicated that they expect soon to move the rate once more in order to make it more attractive for exports. In any case, the spread between the official rate and the parallel rate, which reached as much as 100 percent and more under the previous government, has been relatively small during most of the time that the new government has been in office.

A more controversial aspect of Brazil's actions affecting the balance of payments has been the recent coffee policy. The coffee policy followed by the new government appears to have been set having in mind the objectives of maximizing anti-inflationary resources collected through the contribution quota applicable to coffee exports and the desirability of avoiding windfall profits to exporters of the previous 1963-1964 crop, of which there is a large exportable carry-over in private hands. This coffee policy, which sets a differential contribution quota on new crop and old crop coffee, has been strongly resisted by the coffee industry, which appears to have been holding back sales in hopes that government policy would be changes. GOB officials claim that the small volume of exports in June and July was due not to the lack of offerings from Brazil, but to the lack of interest of buyers abroad. The situation in the international coffee market has been very confused. The upcoming London Conference, the question of whether or not the U. S. Senate would ratify the implementing Coffee Agreement legislation, and large stocks of Brazilian coffee in the hands

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of roasters in consuming countries are important factors in the picture in addition to Brazil's own coffee policy. In any event, Brazil has lost considerable foreign exchange earnings from coffee, and this has contributed to a continuation of a very difficult foreign exchange position.

For the longer term, Brazil is laying a basis for new international financial assistance, a realistic exchange rate policy, and the promotion of exports as solutions to its basic balance of payments difficulties. It has indicated willingness to resume contacts with the IFM looking toward a new standby arrangement and to negotiate with the U. S. for new loans on the basis of an overall economic and financial program now expected to be ready by the end of August or by early September.

Agricultural Policies of New Government

The agricultural policies of the new GOB have not been clearly determined. Personnel shifts have been perhaps more unsettling in this area than in any other (with the possible exception of labor). The only Cabinet officer change to date has been that of Oscar Thompson Filho, who was replaced by Hugo de Almeida Leme. Thompson Filho's term as Agriculture Minister lasted a brief seven weeks before he was dismissed reportedly because of his lack of administrative ability and disagreement with the President on the agrarian reform question.

In large part, the existing uncertainty concerning GOB agricultural policies can be traced back to the emotion-charged issue of "agrarian reform". This issue had become defined almost exclusively in terms of land redistribution under the demagogic policies of the previous regime. Castello Branco has indicated that two factors will determine further moves in this field: (1) the necessity for reform, including (but not confined to) land redistribution as a matter which cannot be denied or indefinitely postponed; (2) at the same time, confidence of the rural producers in the government is a prerequisite if the current problems of production and supply are to be solved. Thus, the government will apparently move with great care in this area.

Shortly after Castello Branco took office, the Chamber passed the long-debated Aniz Eadra-Ivan Luz agrarian reform law. It was anticipated that the measure would receive quick approval in the Senate (where a similar bill had been passed during the Goulart regime). Instead, the bill was put on ice while government officials, congressional leaders, and interested non-governmental

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groups began to work on yet another reform proposal. The new "Land Statute" has not yet been submitted to Congress by the executive.

The first draft of this "land statute" was completed in May. It has since been undergoing intensive review both inside and outside the government, and is expected to be presented to Congress in the near future. The measure represents an essentially moderate approach to agrarian reform. As its central feature, it proposes a variable land tax as the principal instrument for encouraging better use of agricultural land and the breaking up of large holdings of unutilized or under-utilized land. The measure also contains provisions for expropriation and redistribution of land and colonization programs. The measure appears to represent a rational and appropriate first step toward the solution of Brazil's most complex and difficult economic problem. The extent to which the measure might have a favorable effect on Brazilian agriculture is likely to depend in large measure on the attention which is devoted over a long period to related agricultural problems, including the development of an adequate system of agricultural credit, research, technical assistance to farmers, agricultural education, cooperatives and improvements in agricultural marketing.

Also on the positive side of the agricultural policy picture, Castello Branco has approved a suggestion offered by Agriculture Minister Leme dealing with a reformulation of minimum prices; this may contribute to a stabilization of prices in the future. Plans for maintaining large stocks of food and agricultural products and for improving agricultural production have also been approved. A rural credit program was inaugurated, making R.\$20 billion available to farmers.

Other Aspects of the Economic Program

As is frequently the case in Brazil, the government's coffee policy has aroused a good deal of controversy and considerable opposition from the coffee producers. In essence the policy established in June consisted of (1) abandonment of the existing complicated exchange rate system for coffee exports in favor of the higher variable Bank of Brazil rate (currently R.\$1160 to the dollar); (2) raising the contribution quota (equivalent to an export tax) on old crop coffee from \$17.92 to \$28.00 per bag; (3) fixing the contribution quota on new crop (1964-1965) coffee at \$22.50 per bag; and (4) the fixing of support prices at R.\$35,000 per bag for Santos 4 coffee, available only from August 1 onward. In late July the GOB announced that it would sell 300,000 bags per month from government stocks at a price of 42 cents per pound.

The GOB's coffee program appears to be open to two valid criticisms: (1) the fixing of different contribution quotas for old crop

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and new crop coffee inhibited the export of old crop coffee in both June and July; (2) the level at which the support price has been fixed for new crop coffee has provided little incentive to the producer to sell to exporters. In general, the policy established appears to repeat previous mistakes of holding up internal coffee prices at the expense of export volume. On the other hand, the recent announcement of its intention to sell coffee from IBC stocks indicates that the GOB is aware of the importance of filling its quota under the International Coffee Agreement (ICA). Evidently, uncertainty among importers as to ICA's future prior to the passage of U.S. implementing legislation and a general lack of demand while stocks in importing countries were reduced have been important factors in holding down coffee exports during the past four months.

The GOB's successes and failures in its efforts to ensure adequate supplies of essential items to urban consumers at reasonable prices have had a psychological and political effect out of proportion to their intrinsic economic importance. This has been true because of the much harder line on wage increases and because of widespread expectations that the revolution would rapidly bring an end to the rapid price markups of the Goulart period. In fact, the new government inherited a rather tight food supply situation resulting from the drought during the preceding crop season in South-Central Brazil. It moved rapidly to arrange for additional P.L. 480 food supplies through a May 13 amendment to the Fifth Agricultural Commodities Agreement. However, ^{when} it was learned that procurement of these commodities before July 1 would entail a minor bank financing charge, the GOB elected to wait; in consequence, none of these badly-needed additional supplies have arrived as yet. Sugar and milk shortages have occurred which reflect administrative shortcomings and inept application of price controls rather than basic supply deficiencies. Price controls also have been extended to a fairly wide range of industrial products, including automobiles and pharmaceuticals. The prices of which have been frozen during virtually the entire period covered by this review. In general, the GOB's price control efforts have probably had a greater effect in disrupting production and distribution than in ensuring reasonable prices to consumers.

MILITARY

GOB Policies in Relation to the Army

The first 100 days of the Castello Branco regime was marked by an extreme sensitiveness to the situation existing within the Army. This was naturally due to the role which the Army had played in the events leading up to and coming forth from the revolution.

A contributing factor was Castello Branco's close personal identification and knowledge of the situation within the Army.

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As has already been noted, there has been some attention paid to an undercurrent of activity which potentially could bring about a division within the revolutionary-supporting officer corps. However, Castello Branco's policies have thus far minimized such developments.

In relation to promotions, the government has naturally tended to reward those officers who participated actively on the side of the revolution. However, standards of performance have also been carefully considered in this regard. Transfer policies have followed the time-honored tradition of moving doubtful elements out of key spots. During the first 100 day period, two key high-level shifts were of interest in relation to the embryonic development of a "hard-line" opposition within the Army. The first was the transfer of Fourth Army Commander Justino Alves Bastos to head the Third Army; it was considered that perhaps Alves Bastos had built up too much of an empire in the Northeast. The second transfer of interest in this regard was Mourão Filho's nomination to fill the slot vacated by Alves Bastos. Mourão Filho's transfer, coupled with the subsequent announced transfer of Luis Carlos Guedes from the Fourth Infantry Division split up one of the top plotting teams, the members of which clearly leaned towards the "hard" end of the scale.

Post-revolutionary punitive actions resulted in widespread retirement and transfer to the reserve of Army officers. In addition, 29 active duty and retired Army officers plus one enlisted man (Sergeant/Deputy Garcia Filho) had their political rights suspended for a period of ten years under Article 10 of the Ato.

The overall attitude of the Army officer corps reflects support of Castello Branco's policies. The enlisted men--through the Sergeants' Club--have indicated that they also support the President. The passage of the constitutional amendment giving them greater political freedom should result in an even more pro-administration attitude on the part of the majority of this sector.

Post-Revolutionary Policies in Relation to the Navy

Almost all operational activity within the Navy came to a halt following the revolution as nearly exclusive efforts were devoted to investigative processes. Hearings have now been completed, and recommendations calling for the expulsion of some 600 enlisted men have been forwarded to the Navy Minister; it appears that about 60 of these will be actually expelled or held for further trial, the most prominent of whom is Admiral Candido Aragão.

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The pattern of forced retirement, etc., brought about under Article 7 of the Ato has carried a toll within the Navy officer corps ranks. Eight naval officers and one enlisted man (Sergeant Anselmo dos Santos, leader of the March 24 uprising which fused the revolution) have had their political rights suspended for ten years under the Ato.

There seems to be very little "hard-line" criticism of the government from within the naval officer corps. Most officers indicate continued support of the Castello Branco administration, although many are critical of the continued rise in prices. The attitudes of enlisted members of the Navy and Marine Corps is somewhat difficult to determine; however, it is clear that political activity on the part of these groups will not be tolerated.

COB Policies in Relation to the Air Force

On July 2, 1964, twelve general officer promotions were announced to fill vacancies created by forced retirements, etc., of top-level Air Force officers. The only surprising promotion within this group was that to Lieutenant General of Clovis Monteiro Travassos, who had served as the first Air Minister in the parliamentary period of Goulart's regime.

Transfers within the Air Force have thus far been held at a minimum with the general basis for transfer being technical interest rather than political motivation.

To date some 250 officers and enlisted personnel have been discharged or involuntarily retired from the Air Force under Article 7 of the Ato. This number included two former Air Ministers. Investigations are still being carried out, and the possibility exists that further judicial action may be taken against some of the members of the Air Force who have been subject to revolutionary sanctions. Nine Air Force officers had their political rights suspended for ten years under the Ato.

Although some division has appeared within the officer ranks of the Air Force, the service is generally serene and appears to be supporting the policies of the new government. Enlisted ranks of the BAF have generally accepted the new regime and are supporting it. Almost all known or suspected agitators and/or communist associated personnel within the enlisted ranks have been discharged. Base commanders have instigated programs for improving housing and messing facilities in order to improve the morale of the enlisted men. No known areas of disturbance exist at this time.

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PSYCHOLOGICAL

Public Attitude Toward the Revolution

Newspaper reports, personal contacts and public opinion surveys all reveal that the majority of Brazilians supported the revolution at its inception and continue to offer such support. There have been, however, some not-unexpected criticisms and expressions of apprehension or skepticism. Attitudes vary considerably at different levels of society.

Business people, whose interests were clearly threatened under the Goulart regime look with mixed emotions upon the revolutionary measures being taken. The first steps to combat inflation and reduce government expenditures and corruption have met with wide verbal approval. The improved internal and external investment climate is also welcomed by this group. However, the business community has shown slight inclination to cooperate in GOB efforts to brake price increases. Some large industrialists who led opposition to modifications in the Profits Remittance Law (especially Senator Ermirio de Moraes), appear to have been inspired by self-interest rather than selfless patriotism.

As a group, the landowners are generally disgruntled with the reform intentions of the revolutionary government, in spite of their support for other aspects of the regime's policies.

The working sectors of the population, generally neutral or apathetic towards the revolution, perhaps remain the least enthusiastic over present trends. It is difficult at this point to determine the depth of this dissatisfaction. The continued climb in cost-of-living without compensating increases in wages have certainly been a part of the cause of some disaffection.

An opinion survey conducted in the city of São Paulo in June indicated that among all sociological groups, 66-2/3 percent of those interviewed were in full accord with the revolution and only 19 percent were against it. Of those who were 100 percent favorably inclined, 44 percent were fully satisfied with the governmental measures adopted thus far--a reasonably encouraging endorsement under the circumstances. The Paulistas surveyed expressed the opinion that the priority problem of the new government was the cost-of-living situation with other problems being distinctly secondary.

Student activities after the revolution were notable for their absence. Many representative student bodies were dissolved

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and the radical leftist national student political machine, UNE, was broken up. The government's apparent desire to abolish UNE permanently has caused considerable dissatisfaction among students; this might be at least partially allayed if a reasonable substitute organ is created. The majority of the students apparently support the government's education plan per se in its aim to oust the communists from influential positions and moderate highly slanted, anti-capitalistic course material. On balance, it does seem that the government is sensitive to the appeals of the student movement, and therefore will move in the direction of allowing considerable political freedom.

The Government and Its Public Relations

Government control of public information media existed for a few weeks immediately after the revolution. Censorship was subsequently relaxed, although the GOB has used the same instruments (especially financial pressure) as previous governments in exerting influence on mass media communication organs. Media output has favorably reflected the change of government and has generally supported the policies instituted by Castello Branco. Removal of communists and xenophobic leftists from the staffs of various media organs has also contributed to shifts in editorial line from communist-leaning to pro-democratic. Out-and-out communist organs such as Novos Rumos and A Classe Operária have not been published since the revolution. Leftist Ultima Hora closed down most of its publishing offices, and the Rio edition is often a rehash of other opposition press opinion. Bookstores have removed much of their openly anti-American and communist offerings, and the publishing business in this field is also much reduced.

On the other hand, it should be noted that the traditional Brazilian penchant for opposition and free speech has not been materially subdued. Rio's respected Correio da Manhã has taken up the cudgel of the opposition, criticising almost any government program. Adolpho Bloch's personal friendship for Juscelino Kubitschek was evidenced in extremely favorable magazine coverage for the ex-President. Goulart's last Justice Minister, Abelardo Jurema, published an apologia of the Goulart regime in serialized form on the pages of O Cruzeiro (the book form is now on the stands).

There is a general concensus of opinion that the revolutionary regime has not projected itself well, either internally or externally. This is at least partially due to its almost exclusive devotion of attention to the tasks of cleaning out the

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subversion and corruption which existed under Goulart and at the same time, formulation of positive programs aimed at solving the tremendous problems inherited. During the early part of the period under review, the government demonstrated frank bewilderment at what they considered to be lack of understanding of what had taken place in Brazil. Their answer to international criticism was chiefly confined to such ad hoc measures as having Lacerda "explain" the revolution during his European/U.S. vacation. An indication of increased awareness of this aspect of their task came in the form of TV network presentations by Cabinet ministers in which the government's policies during the first ninety days of the revolution were explained. The President himself closed this series--which proved to be a bit on the dull side and thus perhaps not too effective.

An important change in public attitude from the United States point of view is the obvious renewed interest in the U. S. USIS libraries throughout the country report remarkably increased traffic. It is also considerably easier to place USIS material for public dissemination.

Enclosures (3):
As stated.

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MAJOR ECONOMIC LEGISLATION APPROVED OR SUBMITTED DURING FIRST 100 DAYS;
MAJOR ECONOMIC MEASURES IN AN ADVANCED STAGE OF CONSIDERATION

I. Legislation Approved or Submitted

MEASURE

STATUS

COMMENT

Military Pay
Raise Law, effective
April 1.

Signed by the President
on May 1.

While increasing military pay by some 170%, this measure provided considerably smaller benefits than the military pay raise project prepared by the Goulart Government, which contemplated pay increases in excess of 300%.

Civil Servants' Pay
Raise Law, effective
June 1.

Signed by the President
on June 26.

Provides for wage increases of about 110% this year, with additional benefits becoming effective on January 1, 1965, which will bring the aggregate average increase to 125%. The pay increase granted is in excess of the cost-of-living increase (95%) since the previous wage increase on June 1, 1963. On the other hand, the pay law provides for: (a) The adoption of the civil service pay schedule in all Government enterprises. Thus employees receiving wages and salaries in excess of civil service pay will get no increase (no decision has yet been made as to whether actual pay cuts to civil service levels will be instituted). (b) The elimination of various bonuses paid by Government enterprises; and (c) Authorization to eliminate up to 50,000 civil service jobs.

Constitutional amendment providing for the suspension during calendar year 1964 of the Constitutional provision

Passed by Congress
on May 21.

This action permits tax measures voted this year to be immediately implemented, thus opening the way for increasing revenues in 1964.

(Art. 141, paragraph 34) prohibiting the coming into effect of new taxes until the following year.

4. Constitutional Amendment, postponing the date for submitting the 1964 budget to the Congress from May 15 to July 31.

Passed by Congress on May 21.

This action was designed to give the new Government time to reformulate thoroughly the 1965 budget proposals prepared by the Goulart government.

5. Constitutional Amendment ending tax exemptions for certain professional categories.

Passed by Congress on July 14.

Terminates tax exemptions of journalists and professors and those applicable to authors' royalties.

6. Omnibus financial law. Signed by the President on July 16.

This comprehensive law embodies a number of revenue producing measures including:

- (a) raises the ceiling on the issuance of Treasury bonds by the government from R.\$130 billion to R.\$700 billion and permits the government to readjust the value of the bonds with inflation.
- (b) provides for the implementation of a 3% payroll tax earmarked for a Workers Indemnization Fund and the investment of the assets of the Fund in Treasury bonds.
- (c) provides for the compulsory revaluation of corporate capital with a 5% tax on the increase (alternatively Treasury bonds may be purchased for 10% of the increase).
- (d) provides for amplification of income tax deductions at salary or wage source.
- (e) permits the levying of a 30% surcharge on imports.

7. Housing bill.

Congressional action completed July 23.

Provides for a comprehensive National Housing Plan designed for both immediate and long-range impact, proposing and recommending procedures and institutions (1) for elimination of slums, particularly in urban areas, and for continuing, large scale construction of low-cost housing, which will simultaneously create, maintain, and expand much-needed employment; and (2) for encouragement of incentive and financing, through enabling, remedial legislation and innovative credit systems and institutions that hopefully will produce privately sponsored middle class housing, capable of meeting the existing and growing housing needs throughout the whole of Brazil.

The basic legislative features of the original proposal include:

- (1) Establishment of a National Housing Bank with initial capitalization of 0.51 billion, partially provided by 1% private payroll deductions, and to be augmented by external capital resources including funds provided under the Alliance for Progress;
- (2) Establishment of a Federal Housing and Urban Development Authority;
- (3) Compulsory channeling of resources from Social Security Institutes and other government housing agencies into construction of low-cost housing;
- (4) Incentives for significant participation of private enterprise in housing;
- (5) Stimulation of housing cooperatives and related institutional development;

- (6) Statutory provision for contract adjustments for inflation, related to an economic index or the minimum wage; and
- (7) Guaranty of public deposits and investments against monetary devaluation in order to accumulate funds for middle-class housing.

8. Amendment to Profit Remittance Law.
Approved by the Chamber on July 15; pending in the Senate (passed subsequent to first 100 days).

9. Bill providing Penalties for Tax Evasion.
Approved by the Chamber on June 5; pending in the Senate.

10. Bank "Reform" Bill.

On May 7, the government submitted amendment to the bill which originated in the Congress some time ago; now pending in Chamber.

This bill antedated the new government, but is supported by it. In its present form it would for the first time provide criminal penalties (up to 2 years in jail) for false tax declarations or failure to file.

The bill is designed to improve the formulation, coordination and execution of monetary credit and foreign exchange policy by creating a new National Monetary Council and strengthening the Superintendent of Money and Credit (SUNOC) by transferring to it a number of central banking functions now executed by the Bank of Brazil. Chief among these functions would be:

- a) Regulation of the volume of means of payment,
- b) Regulation of the internal value of the currency,
- c) Regulation of the external value of the currency,
- d) Regulation of public credit to private and public institutions.
- e) Regulation of operation of private banking and financial institutions.

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- f) Regulation of activities of BNDE and other federal banking institutions and federal savings banks (caixas economicas).
- g) Coordination of monetary and fiscal policies.
- h) Coordination of public investments.

11. Bill Raising Consumption (Excise) Taxes.

Submitted to the Congress on July 16; pending in the Chamber. Dec. 31, 1964. This bill would temporarily raise Federal consumption (excise) taxes by an average of 30% between Aug. 1 and Dec. 31, 1964. The bill is designed to raise emergency revenue for the remainder of 1964, pending the submission to Congress of a comprehensive tax reform law which is expected to become effective in 1965. Additional revenue from this measure is conservatively estimated at 7.590 billion in 1964. In presidential message on submitting bill, it was estimated that increased tax will result in maximum increase of 1% in cost of living.

12. Constitutional Amendments on Civil Service Personnel.

Submitted to the Congress on June 26. The amendments have the following main objectives:

- (a) to establish uniformity in the pay scales of employees in the Executive, Legislative and Judiciary Branches of Government (addition to Art. 184 of the Constitution);
- (b) to provide that only employees hired on the basis of competitive examinations may be granted permanent civil service status, eliminating the current provision whereby temporary employees who have served 5 years may be granted permanent status. (Articles 186 and 188 of the Constitution)

In a related action the Supreme Court on July 8 published a decision declaring unconstitutional a provision in Law No. 4,054 of April 2, 1962, which granted permanent civil status to temporary employees in Government enterprises on the payroll as of December 1, 1961, even if they had been employed less than five years. The new constitutional amendment would make even temporary employees who had as much as five years of service ineligible for permanent appointments.

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II. Economic Measures in an Advanced Stage of Consideration

M E A S U R E

S T A T U S

C O M M E N T

1. Budget Proposal To be submitted by July 31.
for 1965.

According to GOB officials, this will be a much more realistic and "tight" budget than those presented in recent years. It will incorporate a number of improvements including a new functional format, permitting a better discrimination among personnel expenditures, other fixed costs, transfer expenditures, and investment expenditures. It is also due to include a provision that budgetary allotments will be disbursed in monthly installments for better management of seasonal cash flows of the Treasury.

2. Comprehensive Agrarian Law.

To be submitted to Congress at an early date.

The drafting of this project is virtually completed. It is designed to improve agricultural productivity, to provide for better land use and to promote resettlement. The principal instrument of policy envisioned by the project is the land tax, with some role also given to land purchase by the government and to colonization projects.

3. Comprehensive tax legislation.

To be submitted to Congress by Sept. 30.

This is envisioned as a broad piece of legislation incorporating long-term improvements in the structure of tax rates and the collection machinery as well as a measure to raise revenue to finance the 1965 budget.

4. Preparation of short-term government economic-financial program for 1964 and 1965.

The government hopes to have the program prepared by the end of Aug. or early Sept.

It is expected that this program will be used by Brazil as a basis for negotiations for financial assistance from the U. S., IFM and other sources of finance. The program is also likely to be submitted to CIAP.

5. Comprehensive long-term economic program.

Bases and machinery are being established for the

Among other actions to set the planning machinery in motion, the Brazilian Government has asked for technical collaboration from a group of U. S. economists

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development of a long-term economic plan, including sectoral investment programs for the period beyond 1965. Collateral studies are being contemplated with the view to making basic improvements in areas such as the pension and social security agencies, government operations such as the railroads and the merchant marine and the Brazilian educational system and promotion of exports.

under USAID auspices, to be headed by Professor Benjamin Higgins of the University of Texas.

6. Census of Government Employees.

Understood to be awaiting only the approval of the appropriation of Cr.\$50 million by the Court of Accounts.

A six-month survey will be undertaken by DASP through the Brazilian Institute of Geography and Statistics (IBGE) for making a complete survey of civil service jobs. This will be a basic document which will help in future formulation of the Government's personnel policy.

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Major Executive Actions in Economic Field

ACTION EFFECTIVE
 DATE

COMMENT

1. SUMOC Instruction 270, eliminating subsidies on petroleum and wheat.
Determined a large degree of effective unification of foreign exchange rates, with the major exception of coffee. This had the effect of cancelling the subsidies implicit in the prior use of a R.\$620 import rate for petroleum, wheat, and newsprint, making these items subject to the general Bank of Brazil import rate which is currently quoted at R.\$1200 per dollar.

2. Coffee policy for July 1, 1964-June 30, 1965 coffee crop and previous crops determined through SUMOC Instruction 272 and collateral actions of the IBC.
June 2 (date of SUMOC Instruction 272).
SUMOC Instruction 272 virtually completed the unification of exchange rates by making coffee exports subject to the general export rate (currently R.\$1,160 per dollar) instead of the special 600 rate formerly used. The contribution quota for exports of coffee of the 1963-64 crop was set at \$28 per bag, and the contribution quota for the new 1964-65 crop was set at \$22.50 per bag. This policy was the result of a compromise between the government, which originally aimed at having a larger contribution quota, and the coffee industry, which wanted a much-reduced quota. The government's new coffee policy, consisting of SUMOC Instruction 272 and complementary IBC regulations on the marketing, financing and internal support price policy for coffee, has come under strong attack by the coffee industry. There is some reason to believe that this opposition and the effect of the level at which the support price has been set has been partially the cause of the severe reduction of coffee exports in recent weeks. Brazilian officials, on the other hand, argue that the fall in exports is due to a lack of demand on the part of importers.

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3. Minerals
Policy.
Approved by the
President on
July 1.

This comprehensive policy looks towards: (a) stimulating mineral exports; (b) delimiting government activities in mining to existing government enterprises and such new activities as may not be of interest to private enterprise and (c) realistic examination of mining projects by the Ministry of Mines and Energy avoiding placing undue obstacles to the execution of projects advantageous to Brazil.

4. Wage Policy.
Presidential
Decree signed
July 14.

This decree reorganizes and strengthens the National Council for Wage Policy and defines its responsibilities as including the determination of wage policy for the government, government enterprises and such private entities as are subsidized by the government or have contracts with the government. Adherence to the wage policy will be recommended to states and municipalities and to labor courts for guidance in settling disputes arising in private contracts. Basic principles for the wage policy as set forth in the decree include:

- (a) wage adjustment shall take place no more frequently than once a year;
- (b) salary adjustments shall be designed to maintain the average real wage during the previous two years, plus an allowance for increases in productivity. The calculation of the salary adjustment formula will be made taking into account (i) average real wage during previous two years, (ii) productivity increase, and (iii) projected increase in cost of living during the next wage year. The coefficients of the wage adjustment will be determined by the Minister of Finance, in consultation with the Minister for Planning and the Executive Director of SUMOC.

5. Resumption of
negotiations for
the purchase of the
AMFORP properties.
Negotiations were
resumed in June.

Signature of purchase contract now expected within the near future.

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6. Government's expenditure plan for 1963.

Decree signed by the President and published in the "Diario Oficial" of June 8.

This decree set a total budgetary expenditure limit of Cr.\$2,433.3 billion for fiscal year 1964, including both appropriated and unappropriated expenditures. The decree provides that expenditures in excess of appropriations must have previous authorization by the President. (Obligations may be made by Ministers in consultation with the Minister of Finance). Subsequently, the expenditure limit was raised to Cr.\$2,603 billion--leaving an estimated cash deficit of Cr.\$703 billion.

7. Rescheduling of foreign debt due in 1964 and 1965.

Agreed by creditors of the "Hague Club" in Paris on July 1.

Helped by a reasonable and realistic approach, the new Brazilian Government was able to attain approval of debt relief on government and government-guaranteed project credits totaling \$190 million in 1964 and 1965. Negotiations are in process to reschedule some \$50 million of "compensatory" loan repayments due to the Export-Import Bank and the U. S. Treasury in 1964 and 1965; as well as some \$100 million due to private U. S. suppliers in these two years.

8. Prohibition of civil service appointments.

Decree signed by the President and published in the "Diario Oficial" of June 16.

Prohibits new appointments of either a permanent or temporary character until December 31, 1965, except as may be authorized by the President for special positions of trust for filling of vacancies by persons having passed the civil service examination and for the temporary employment of veterans.

9. Raising Transportation fares.

(a) domestic air fares

Effective in May. Increase of 50%.

(b) railroad passenger fares

Effective June 20. Increase from 6% to 225%.

(c) railroad freight fares

Effective June 20. Increases from 15% to 240% (average increase estimated at about 35% - 40%).

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(d) railroad fares
suburban fares

Effective in April.

Increased from 10 cruzeiros to 30 cruzeiros in Rio and São Paulo (authorized by the previous government and implemented by the new government).

10. Export
Promotion.

(a) Simplifica-
tion of cus-
toms "draw-
back"
procedures

Presidential decree
of June 15.

Facilitates the obtaining of customs duty exemption of imported products used in producing materials for export.

(b) Establishment
of Commission
for the Coordi-
nation of
Foreign Trade

Presidential decree
signed in May.

This commission is charged with formulating measures designed to promote exports. This work is being given a high priority by the new government.

11. Bank of Brazil
credit ceilings.

Internal bank
policy approved by
Bank of Brazil
President in mid-
July.

Sets ceilings on Bank of Brazil loans to the private sector (except coffee) as follows:

- (a) General Credit Department (CREGE): credit expansion limited to Cr.\$73 billion during third quarter and to Cr.\$151 billion during fourth quarter of 1964.
- (b) Agricultural and Industrial Credit Department (CREAI): credit expansion limited to Cr.\$250 billion during second half of 1964.

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Resume of Major Alliance for Progress Projects
Initiated During First 100-Day Period of
Castello Branco Administration

A: Technical Assistance Programs

1. Assistance to finance the costs of bringing high-level economists and other specialists to Brazil to act as technical economic advisors to assist the GOB's developmental efforts.
2. Provision of technical assistance in the field of tax administration and policy. (Funds are to be used to provide services of skilled tax economists who will carry out studies pertinent to the efficiency of current tax operations of the Finance Ministry and make recommendations concerning suggested changes in the tax machinery.)
3. Assistance to the State of Bahia for the establishment of a Public Service Institute, the purpose of which will be to undertake studies necessary for the formulation of a broad program of administrative reform within the state government. The Institute will also organize a training program for state employees and will provide technical assistance in carrying out suggested administrative reforms.
4. Assistance programs in obtaining essential data on land usage and title transfers, as well as the development of programs for the intensification of land usage. (This project is designed to further GOB agrarian reform efforts.) A reconnaissance project for determining soils, climate, vegetation, water, and general resources in specified frontier regions will also be undertaken. Supplemental agricultural commodities will be provided to two colonization efforts in the State of Mato Grosso.
5. Assistance in the area of national water supply and sewerage disposal (revision of an on-going program). The revised program will (a) provide orientation for municipal and other key officials; (b) develop preliminary engineering reports for 20 medium-sized Brazilian cities aimed at formulation of

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plans necessary for "pay-as-you-go" construction programs;
(c) train 650 water-works employees over the next two years;
(d) provide financial assistance for development of master plans to develop water and sewerage systems for the São Paulo metropolitan area; (e) provide funds for the operation of a National Training Center aimed at accelerating and intensifying training of water-works employees.

6. The U. S. is financing the cost of an investment survey for the purpose of identifying economic priorities for programs of industrial development in Mato Grosso.
7. Financing of a program to provide U. S. professors to assist in establishing a graduate school of economics at the University of São Paulo; this effort will be coordinated with assistance provided by the Ford Foundation.
8. Financing of costs for contract services furnished by U. S. universities for the purpose of training managerial and technical workers in the areas of industrialization and economic development (program in Alagoas, Paraíba, Bahia and Ceará); financial cost assistance will also be extended to the individual states in the preparation of surveys and research to be applied to the states' development programs.
9. Financial aid through SUDENE for a program of repairing and restoring idle wells in the Northeast; the program includes rehabilitation of 60 American-manufacture drill rigs in Brazil.
10. Provision of high-concentrate livestock feeds within the state of Rio Grande do Sul to increase livestock production in the Pelotas area (the project is envisaged as being a pilot program for the industry throughout the country). Feed grains are also being provided for a pilot poultry production project in Rio Grande do Sul.

B: Loans for Capital Development Projects

1. A loan of \$4.3 million has been authorized to assist in financing electric power expansion of generation, transmission and distribution facilities in Mato Grosso. The project also includes the improvement of maintenance facilities and the training of personnel.

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2. A loan of \$15 million has been approved to finance purchase and importation of fertilizers from the U. S. The local currency counterpart of this loan is to be applied to various purposes including stimulation of the national fertilizer industry.
3. \$2,700,000 has been authorized for purchase of electronic approach equipment to complete a project of providing for landing and control of jet aircraft at major Brazilian airports (provisions have already been made for the installation of such equipment at Rio de Janeiro and São Paulo).
4. SUDENE will receive an \$11 million dollar loan to assist in acquisition of highway maintenance equipment, retention of qualified highway maintenance advisors and training mechanics and equipment operators. This loan, in conjunction with previous loans, will provide all nine Northeastern states with the necessary equipment and personnel to properly maintain the area's highway system.
5. \$7 million has been approved for assisting in the construction of power transmission lines from the electric-generating facilities of the São Francisco Hydro-electric Company to the city of Fortaleza.
6. A loan for \$20.4 million has been approved to assist in financing procurement and installation of additional generators at the Peixoto hydroelectric plant on the Rio Grande river. The additional power generated will contribute to an accelerated program for relief of the power shortage in the Guanabara-Niteroi area. Assistance in financing of transmission lines in connection with this project has also been approved during the period under review.
7. A \$16.7 million loan has been granted to partially finance expansion of the high-voltage transmission system which will interconnect the São Paulo-Rio-Guanabara load centers with electric power sources on the Rio Grande river. The project will immediately and directly contribute to industrial growth.

C: Food for Peace Programs

Under the various activities included in the Food for Peace program, \$74.5 million equivalent in cruzeiros will be made available for grants and loans in support of Brazil's industrial and

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social development. These funds will be generated from the sales of commodities delivered under a recent amendment to the Fifth Wheat Agreement. In addition to these cruzeiro funds, grants have been made since April 1 for \$7.7 million dollars worth of food supplies, principally representing supplies to school lunch programs and powdered milk to the CNA (Campanha Nacional de Alimentação) programs for distribution to pregnant women, infants and pre-school children. \$6 million in supplies has been granted Brazil for distribution to needy persons through the CARITAS, Church World Services and Lutheran Relief organizations.

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